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INDIA'S ECONOMIC DIPLOMACY AND TRADE AGREEMENTS: OPPORTUNITIES AND CHALLENGES

Mohammed Rasool Khan M*   Dr. P. Jayakumar**

**II M.A. Economics, Department of Economics, St. Joseph's College (Autonomous), Tiruchirappalli.*
***Assistant Professor, Department of Economics, St. Joseph's College (Autonomous), Tiruchirappalli.*

Abstract
India's economic diplomacy has emerged as a central tool of foreign policy in a rapidly evolving global economy. Through trade agreements, India seeks to expand market access, attract investment, boost exports, and secure strategic interests. However, these negotiations involve challenges such as domestic policy constraints, tariff reduction pressures, and the need to protect vulnerable sectors while balancing bilateral, regional, and multilateral commitments. This study examines India's trade diplomacy in the context of globalization, focusing on its potential to enhance growth, integrate into global value chains, and strengthen geopolitical influence. It also highlights key concerns, including ensuring inclusive development, maintaining industrial competitiveness, and preserving policy autonomy. The paper emphasizes the importance of aligning trade policy with broader economic priorities, including technology cooperation and long-term resilience. Using a descriptive analytical approach, it argues that India must leverage trade agreements carefully to achieve sustainable growth while avoiding unequal gains and external dependence.

Keywords: India, economic diplomacy, trade agreements, international trade, strategic autonomy, globalization.

Introduction
Economic diplomacy has become central to India's external economic policy since 1991, shifting from protectionism to an outward-oriented strategy focused on trade, investment, and global integration. It now includes supply-chain partnerships, technology cooperation, and strategic engagement with diverse partners. Between 2015 and 2025, India pursued bilateral and regional trade agreements to expand markets, attract investment, and integrate into global value chains, while protecting domestic industries and promoting self-reliance.

However, outcomes have been uneven. Despite over 50 trade arrangements, benefits depend on domestic competitiveness and institutional capacity. A major challenge is the relationship with China, where import dependence persists and the trade deficit widened to $99.2 billion in 2024–25. This underscores structural imbalances and the limits of diplomacy without stronger industrial capacity. Thus, while economic diplomacy has expanded India's opportunities, its gains remain constrained by trade deficits, weak manufacturing, and the tension between openness and autonomy.

Statement of the Problem
India's economic diplomacy has expanded through over 50 trade agreements and strategic partnerships, yet outcomes remain uneven due to persistent trade deficits, uneven sectoral gains, and continued dependence on imported intermediates and capital goods. This is most evident in relations with China: imports reached $113.5 billion in 2024–25 while exports were only $14.25 billion, creating a $99.2 billion deficit and underscoring a deep structural imbalance.

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The key issue is not the number of trade agreements but their effectiveness in achieving sustainable and balanced development. Economic diplomacy must be supported by stronger domestic capacity and institutional coordination. This study assesses whether India's economic diplomacy (2015–2025) has advanced national development or increased external dependence.

Scope of the Study

This study examines India's economic diplomacy and trade agreements from 2015 to 2025, focusing on trade negotiations and strategic partnerships. Special attention is given to India's trade with China, which reveals key contradictions in external economic policy. In 2024–25, imports from China were about $113.5 billion against exports of $14.25 billion, creating a $99.2 billion deficit. This case illustrates both the opportunities and vulnerabilities of India's economic diplomacy, emphasizing the link between trade agreements and actual economic outcomes.

Research gap

The study highlights a gap between India's economic diplomacy ambitions and actual trade outcomes. While diplomacy aims to boost exports, investment, and diversification, its impact is constrained by weak manufacturing, limited technological capacity, and supply-side bottlenecks. As a result, trade agreements may succeed in negotiation but fall short in achieving real economic transformation.

Objectives

1. To assess gaps between diplomacy goals and trade outcomes.
2. To examine domestic constraints on trade gains.
3. To evaluate impact on economic transformation.

Methodology

This study uses a descriptive and analytical research design based on secondary data for the period 2015–2025. Data are collected from government portals, policy documents, and trade statistics related to India's external economic relations.

The analysis applies trend interpretation and comparative assessment to examine changes in trade diplomacy and the gap between policy objectives and actual outcomes, particularly in relation to China.

Review of Literature

Dabhade (2022) notes that India's economic diplomacy has moved from the margins to a central, strategic role post-1991, encompassing trade, investment, and the pursuit of global influence and positioning.

Brookings India (2019) argues that India's multilateral trade diplomacy balances development priorities with negotiation strategy, protecting domestic sectors while engaging with global frameworks.

OECD (2021) observes that while India's global economic participation has grown, structural weaknesses limit the benefits, stressing the need for domestic reforms and institutional strengthening.
Reuters (2025) reports India's trade deficit with China hit a record $99.2 billion in 2024–25, driven by surging imports, underscoring structural imbalances in a key bilateral relationship.

Srivastava & Hindustan Times (2025) note imports from China reached $113.5 billion against exports of $14.25 billion in 2024–25, reflecting deep dependence on Chinese manufacturing and limited policy autonomy.

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Berridge (2004) frames economic diplomacy broadly, covering export promotion, investment, aid, and regulatory management, beyond just trade agreements.

Result and Discussion

Trade Agreements and Diplomatic Reach

Table 7.1 - India's Major Trade Agreements and Diplomatic Reach

Year	Agreement	Partner(s)	Status / Relevance
2021	India–Mauritius CECPA	Mauritius	Implemented FTA
2022	India–UAE CEPA	UAE	Implemented FTA
2022	India–Australia ECTA	Australia	Implemented FTA
2024	India–EFTA TEPA	EFTA states	Signed; entered into force in 2025
2025	India–UK CETA	United Kingdom	Signed
2025	India–Oman CEPA	Oman	Signed
2025	India–New Zealand FTA	New Zealand	Announced
2026	India–EU FTA	European Union	Announced

Source: U.S. Trade.gov India trade agreements guide.

Table 7.1 highlights India's trade policy reach, showing a strategy to diversify partners, secure economic ties, and align trade with foreign policy. However, the real test is not the number of agreements, but whether they boost export competitiveness, reduce dependence, and support balanced development.

India–China Trade and External Imbalance

Table 7.2 - India–China Trade and External Imbalance

Year	Exports to China (USD bn)	Imports from China (USD bn)	Trade Deficit (USD bn)
2016-17	13.33	61.27	47.94
2017-18	13.33	76.38	63.05
2018-19	16.75	70.32	53.57
2019-20	16.61	65.26	48.65
2020-21	21.19	65.21	44.02
2021-22	21.60	94.60	73.00
2022-23	15.30	98.50	83.20
2023-24	16.66	101.73	85.07
2024-25	14.25	113.50	99.20

Source: Embassy of India, Beijing trade relations page

The table shows the imbalance widened sharply after 2020–21, as imports grew much faster than exports. In 2024–25, India imported $113.5 billion from China but exported only $14.25 billion, resulting in a $99.2 billion deficit. This reflects deep dependence on Chinese supply chains and weak Indian market penetration in China.

FDI Inflows and Investment Trend

Table 7.3 - India's FDI Inflow Trend

Financial Year	FDI inflow (USD bn)	Year-on-year change
2014-15	45.15	+25%

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2015-16	55.56	+23%
2016-17	60.22	+8%
2017-18	60.97	+1%
2018-19	62.00	+2%
2019-20	74.39	+20%
2020-21	81.97	+10%
2021-22	83.57	+2%
2022-23	71.28	-15%
2023-24	71.28	0%
2024-25	81.04	+14%

Source: PIB official FDI press release

The table shows a broadly rising trend, though not a perfectly smooth one. The sharp increase in 2019-20, 2020-21, and 2024-25 indicates renewed z confidence, while the dip around 2022-23 shows that FDI can still fluctuate with global conditions and domestic uncertainty.

Export/Import Trend

Table 7.4 - India's Export/Import Trend

Financial Year	Exports (USD bn)	Imports (USD bn)	Trade Balance (USD bn)
2014-15	310.4	448.0	-137.6
2015-16	264.3	381.0	-116.7
2016-17	275.9	384.3	-108.4
2017-18	303.5	459.7	-156.2
2018-19	330.1	514.1	-184.0
2019-20	313.4	467.2	-153.8
2020-21	291.8	394.4	-102.6
2021-22	422.0	611.4	-189.4
2022-23	447.5	714.5	-267.0
2023-24	437.1	678.7	-241.6

Source: Economic Survey 2025-26 Statistical Appendix

This trend shows that India's export growth was not enough to offset import expansion. The widening deficit in years such as 2021-22 to 2023-24 indicates that trade openness alone did not create balanced external performance. Instead, the data point to the need for stronger domestic production, value addition, and diversification of export markets.

Trade Deficit Trend

Table 7.5 - India's Trade Deficit Trend

Financial Year	Trade deficit (USD bn)
2014-15	-137.6
2015-16	-116.7
2016-17	-108.4
2017-18	-156.2
2018-19	-184.0

2019-20	-153.8
2020-21	-102.6
2021-22	-189.4
2022-23	-267.0
2023-24	-241.6

Source: Economic Survey 2025-26 Statistical Appendix

Table 7.5 shows India's trade deficit remained persistently negative, widening sharply from 2021–22 to 2023–24 due to import dependence and global price shocks. This matters because a persistent deficit limits the gains from trade agreements unless export capacity improves alongside.

Challenges in Trade Agreements

1. **Rising trade deficit:** Imports have grown faster than exports under many agreements; India's deficit with China hit $99.2 billion in 2024–25.
2. **Low FTA utilisation**: Many exporters do not fully use tariff concessions, limiting export gains.
3. **Rules of Origin burden:** Complex certification raises compliance costs, especially for MSMEs.
4. **Inverted duty structure:** Higher taxes on inputs than finished goods raise domestic production costs.
5. **Non-tariff barriers:** Standards, delays, and certification requirements restrict export competitiveness.
6. **Dependence on China:** Heavy reliance on Chinese imports ($113.5 bn vs $14.25 bn exports in 2024–25) underscores structural imbalance.

Political and Governance Critique

India's economic diplomacy relies as much on governance as on trade figures. A key weakness is the gap between policy design and implementation, with slow and uneven execution. Trade agreements succeed only when institutions convert them into exports, investment, and industrial growth. Despite FDI inflows reaching $81.04billion in FY 2024–25, the trade deficit with China widened to $99.2 billion, showing that diplomacy alone cannot deliver balanced outcomes without strong domestic capacity.

Centralization and Accountability

India's increasing centralization speeds up national decisions but limits state-level flexibility and weakens accountability, especially in trade where local conditions differ.

Political Tensions and Policy Consistency

Domestic political pressures can disrupt policy consistency, reducing predictability for foreign partners; without stable rules and transparency, even strong trade agreements may underperform.

Suggestions

1. India should strengthen domestic manufacturing so that trade agreements lead to real export gains.
2. Trade policy should be linked with industrial upgrading, not treated only as tariff reduction.
3. More attention should be given to reducing dependence on China for critical inputs.
4. Trade negotiations should include wider consultation with industry and state governments.

5. Policy implementation should be made more transparent and accountable.

Conclusion

The study shows that India's economic diplomacy has expanded in scope, but outcomes remain uneven as trade gains are not always matched by domestic industrial strength. India needs a stronger industrial policy, a more effective trade strategy, and governance that is more accountable and implementation-oriented. The main lesson is that economic diplomacy should not be viewed only as a tool for immediate market access. It must also support long-term national development by improving competitiveness, reducing import dependence, and strengthening policy coordination. In the Indian context, this means linking trade agreements with manufacturing growth, export diversification, and better support for domestic firms. Without this connection, external engagement may increase market access but still leave the economy vulnerable to trade deficits and strategic dependence. A balanced and forward-looking economic diplomacy is therefore essential for India's future, combining openness with self-reliance, global integration with domestic capacity building, and diplomatic ambition with effective governance.

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