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India's Trade Competitiveness in a Changing Global Environment

Global Trade Dynamics and Recent Disruptions

Foreign trade has long been integral to global economic development, transitioning from a relatively modest activity in the early 19th century to a defining feature of today's interconnected world. Foreign trade is today characterised by complex supply chains, deep economic interdependence, and rapid technological change, reflecting a long journey from protectionist systems to modern, integrated global commerce.

Over the past decade, successive shocks have reshaped global trade, policy priorities, and supply-chain design. China's rise as a manufacturing hub after joining the WTO in 2001 deepened global production networks and US-China interdependence, but the 2018 US tariffs triggered a sharp fall in bilateral trade and pushed firms toward "China-Plus-One" alternatives such as Vietnam, even as indirect reliance on China persisted.

The COVID-19 pandemic further exposed structural weaknesses in global value chains through lockdowns, logistics bottlenecks, and concentrated sourcing, particularly in semiconductors, pharmaceuticals, and essential medical supplies, driving renewed momentum toward reshoring, nearshoring, and friend-shoring. Supply disruptions were compounded by the Russia-Ukraine conflict, which tightened global energy and food markets, elevated commodity prices, and intensified inflationary pressures. At the same time, maritime chokepoints became increasingly vulnerable, with incidents in the Red Sea, drought-related restrictions at the Panama Canal, and disruptions around the Suez Canal lengthening shipping routes and raising freight and insurance costs. Heightened tensions in the Middle East and the restricted movement of vessels through the Strait of Hormuz have further delayed shipments and inflated transport costs, affecting economies reliant on this corridor.

In addition, the renewed wave of tariffs, led by broad US measures, and widening geopolitical rift has accelerated efforts by several economies to reduce reliance on the US dollar in cross-border transactions. Overlaying these shifts, the EU's Carbon Border Adjustment Mechanism (CBAM) adds a climate-pricing layer to trade, reflecting the growing role of emissions standards in determining trade competitiveness.

India's Trade Performance in the Past Decade

India is among the world's fastest-growing major economies, with GDP growth projected at 7.3% in 2025, far exceeding the global average of 3.3%. Over the last decade, the country's participation in global merchandise trade has expanded substantially, with total trade rising from US$ 643.3 billion in FY16 to US$ 1.2 trillion in FY25. Merchandise exports recorded a compound annual growth rate (CAGR) of 5.8%, growing from US$ 262.3 billion in FY16 to US$ 437.4 billion in FY25, after easing from the record high of US$ 451.1 billion in FY23. Imports grew at a comparatively faster pace, rising at a CAGR of 7.3%, from US$ 381 billion in FY16 to US$ 720.2 billion in FY25.

Over the past decade, India's export profile has undergone a notable transformation. Engineering goods, including machinery, mechanical appliances, and electrical equipment, emerged as a major export category, accounting for 17.7% of total exports in FY25, followed by mineral products (16.3%) and chemical products (14.6%), among others. Asia remained India's largest regional export destination in FY25, absorbing 40.2% of the country's total exports followed by Europe (accounting for 22.7% of the exports) and North America (20.9%) during the same financial year.

India's import pattern has seen little change over the past decade, with crude oil remaining the dominant component of its energy mix. In FY25, mineral products made up about 32% of total imports, followed by engineering goods (21.2%), and pearls and precious stones (12.3%). Geographically, India's dependence on Western economies has declined, with the combined share of Europe and North America dropping from 36% in FY16 to 20% in FY25. In contrast, imports from Asia, especially China, have grown significantly, pushing Asia's overall share from 49.5% to 61.7% during the same period.

Scope for Increasing India's Trade Performance

India's potential to expand its role in global trade rests on improving competitiveness across products, markets, and value chains. India's exports stood at US$ 441.7 billion in the calendar year 2024 against world imports of US$ 24.2 trillion, translating into a 1.8% share. A product-level assessment of 5,786 HS-6 digit lines during the period 2020-2024 shows substantial untapped export opportunities. Products where India's average export share in global import demand is below 1% account for 61% of all HS-6 lines and represent 66.8% of world import demand yet contribute only 9.2% of India's exports. This segment includes high-demand items such as aircraft parts, vaccines, data-transmission machinery, and plastics, pointing to under-scaled capabilities and significant headroom for growth.

Further, India has Trade Intensity Index (TII) value greater than 100 with 80 of its 224 trading partners in 2024, indicating that India trades with these countries more intensively than their share in world trade. These 80 countries account for 42.3% of world GDP and absorb 66.6% of India's exported value in 2024. This underscores India's reliance on a concentrated set of partners such as the US, UAE, Saudi Arabia, and other Asian economies, and the opportunities for diversification by connecting with economies representing the remaining share of global GDP.

Revealed Comparative Advantage (RCA) analysis further highlights India's strengths and gaps. At the HS-2 digit level, India has an RCA greater than 1 in 46 product groups, representing 67% of its export basket and 40.6% of global demand. These include mineral fuels, precious stones, pharmaceuticals, and organic chemicals. Product groups where India's RCA is below 1 include electrical machinery, mechanical appliances, vehicles, and plastics. A deeper HS-6 digit view shows RCA above 1 for 1,251 of 2,130 major export products, while products where India has RCA below 1 correspond to 67.6 % of global import demand, highlighting priority areas for capability building.

India's Integration into Global Value Chains

India's integration into global value chains (GVCs) remains that of a mid-chain economy with overall backward linkages near 25.7% and forward linkages near 18.5%, reflecting India's relatively lower backward participation (less foreign value added in exports) and growing forward participation (domestic value used in others' exports), however trailing behind smaller, highly trade-intensive hubs. In the 'China-Plus-One' realignment landscape, India could leverage this opportunity and integrate more deeply into the value chains. In the category of electronics (HS 85), India occupies a hybrid, mid-chain position, with rapid growth in assembly-led exports, particularly smartphones, alongside emergence of upstream capabilities in components and semiconductor devices. While backward linkages are relatively high, indicating dependence on imported inputs, forward linkages are rising as India begins supplying more intermediate value into global production networks. India can strengthen its position by transitioning from an assembly-centric footprint to deeper participation in design, component ecosystems, testing and tooling so that a greater share of domestic value moves into foreign final demand. In the category of machinery and mechanical equipment (HS 84), India functions primarily as a supplier of precision components rather than a producer of final machinery. Its GVC position shows moderate forward linkages and elevated backward linkages, indicating import dependence for specialised parts yet increasingly supplying components to global machinery networks, pointing to the need to deepen component ecosystems and expand downstream capabilities. In the category of motor vehicles and transport equipment (HS 87), India reflects an earlier-chain, input-oriented profile with high domestic content and moderate forward linkages, but limited direct reach to foreign consumers, pointing to the need to deepen component ecosystems and expand downstream and branding to lift final-demand penetration. In the category of plastics and articles (HS 39), India displays a mid-chain profile, a growing converter of films, packaging and plastic articles, yet still dependent on imported feedstocks.

Policy Recommendations and Way Forward

India's trade profile has shifted toward higher-value sectors such as technology, pharmaceuticals and engineering goods, with exports growing 7.1% in 2024, compared to 2.5% globally. However, overall trade integration has declined, as merchandise trade fell from 38.5% of GDP in 2014 to 29.7% in 2024, while its share in global exports rose only marginally from 1.7% to 1.8%. Export performance continues to be shaped by structural constraints, including limited manufacturing scale, high logistics and transaction costs, and inverted duty structures. Regulatory complexity, litigation, and limited participation in global value chains also restrict competitiveness, while higher tariffs and non-tariff barriers raise input costs for export-oriented sectors.

Strengthening India's Export Basket

The RCA undertaken in the study indicates that India holds competitive strength in several product categories that also correspond to 40.6% of world imports. Leveraging these strengths while simultaneously nurturing underperforming yet high-potential sectors is essential for enhancing India's export dynamism. In the short run, prioritising specialisation of product champions, such as mineral oils, smartphones, and pharmaceutical products could deliver substantial gains. Alongside these, strengthening export capabilities in the identified "underachiever" product categories with high global import demand would support more diversified export growth over the medium to long term.

Deepening India's GVC Integration

Technological upgradation and innovation are vital for India to move up the value chain in an evolving supply chain environment. India should prioritise mutual recognition of testing, certification, and product-safety standards in line with global norms. In electronics, the focus should be on leveraging relocated assembly operations and strengthening the domestic component and designing ecosystem. The machinery sector offers potential for expanding precision subsystems and service-linked exports, while the EV transition within automotive enables movement into higher-value battery and safety-system segments. In plastics and chemicals, upgrading into performance and specialty categories, supported by circularity and sustainability standards could reinforce India's role as a key intermediate supplier.

Exporting under Uncertainty

The rise of protectionism and growing trade disputes has created a challenging environment for Indian exporters, who now face higher tariffs, policy unpredictability, and more complex compliance requirements. To stay resilient, Indian businesses, especially MSMEs should strengthen supply-chain visibility through digital and AI-based tools, diversify suppliers and customers across geographies, and build strong cybersecurity. To enhance systemic resilience, policymakers could institutionalise an Early Warning System based on high-frequency indicators to detect emerging stress across logistics, demand, and financial channels.

Enhancing the Efficiency of India's Logistics Ecosystem

A well-functioning logistics ecosystem is essential for supporting domestic markets and strengthening India's integration into global supply chains. India should focus more on structured multimodal transportation, uniform interstate permits and charges, and use of technology to resolve chronic driver shortage. Having an app-based ecosystem which connects nationwide shippers with verified truck drivers on real time basis, could address the issue of lack of backhaul availability and driver shortage, thereby decreasing the logistics costs, fuel consumption, and minimising emissions.

Resolving Inverted Duty Challenges with GST Reforms

The Government of India's 2025 GST reforms introduced a simplified two-slab structure of 5% and 18%, along with broad rate reductions for essential, labour-intensive, and agriculture-linked sectors. However, the reforms did not fully resolve the inverted duty structure (IDS), where tax rates on inputs remain higher than those on finished goods. A more balanced and streamlined GST framework, aligned with global best practices, would reduce cost inefficiencies, strengthen domestic manufacturing ecosystems, and enhance the competitiveness of Indian exports in global markets.

Carbon-Aligned Competitiveness

Indian industries should focus on accelerating the adoption of low-carbon technologies such as renewable electricity, green hydrogen, carbon capture, and waste-heat recovery. Reducing emissions in intermediate goods is especially important, as India's key export strengths in steel, aluminium, chemicals, and auto components lie upstream, where CBAM exposure is highest. Proactive carbon-accounting alignment and faster technology upgrades will be essential to protect market access and strengthen India's GVC resilience.

Moving forward, India could prioritise technology adoption, carbon-aligned production processes, supply-chain diversification, and deeper GVC integration to strengthen its global trade footprint. With coordinated policy support and industry-led innovation, India is well-positioned to capture emerging opportunities and elevate its role in the rapidly evolving global trade landscape.

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