



The impact of recent foreign trade policies on India's economic growth

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Abstract

India's foreign trade policy has undergone a significant transformation since 2020, with greater emphasis on export diversification, trade agreements, production-linked incentives, supply-chain integration, and strategic protection of selected domestic industries. Important developments include the Foreign Trade Policy 2023, the India-UAE Comprehensive Economic Partnership Agreement, the India-Australia Economic Cooperation and Trade Agreement, the India-EFTA Trade and Economic Partnership Agreement, and India's continuing negotiations with the United Kingdom and the European Union. This study examines how these policies have influenced India's economic growth through trade expansion, investment, manufacturing, services, employment, and external-sector stability. Using a descriptive mixed-method approach, the study combines macroeconomic indicators with policy analysis. The evidence suggests that recent trade policies have supported export resilience, improved market access, and strengthened India's position in global value chains. However, the benefits have been constrained by high logistics costs, non-tariff barriers, limited participation of small and medium enterprises, import dependence in critical sectors, and persistent merchandise trade deficits. The study concludes that foreign trade policy can contribute substantially to India's long-term growth only when market access is accompanied by domestic competitiveness, institutional reforms, and reliable trade infrastructure.

Keywords: Foreign trade policy, economic growth, exports, free trade agreements, global value chains, trade liberalization

Introduction

Foreign trade is an important channel through which developing economies obtain capital goods, technology, intermediate inputs, foreign exchange, and access to larger markets. For India, trade policy has become increasingly central to the country's ambition to achieve sustained high economic growth and strengthen its role in global production networks. The policy environment has also become more complex because of supply-chain disruptions, strategic competition among major economies, energy-price volatility, and the reorganization of international manufacturing.

India's recent trade-policy approach combines trade liberalization with strategic protection. On one hand, the country has negotiated new trade agreements, simplified export procedures, promoted digital trade documentation, and offered incentives for export-oriented production. On the other hand, it has used tariffs, import restrictions, licensing requirements, and temporary export controls to protect domestic producers, manage inflation, and reduce external vulnerability.

This combination creates both opportunities and risks. Greater market access can expand exports, productivity, investment, and employment. Conversely, higher tariffs and import restrictions can increase the cost of intermediate goods, reduce competitiveness, and encourage inefficient domestic production. The effect of a particular policy therefore depends on its sectoral design, duration, implementation, and consistency with broader industrial and macroeconomic objectives.

Literature review

Bhattacharya and Sachdev (2021) ^[6] in their study "A study on growing Indian Economy in relation to the International

Foreign trade" describe India's growing economic integration with the world, highlighting infrastructure development, technology adoption, 100% FDI policies, and the "Made in India" initiative. They argue that foreign trade not only fosters growth but promotes strategic diplomatic ties, with MSMEs playing a crucial role in GDP growth.

Mani (2021) ^[7] stresses that economic decision-making has become central to governments and examines India's export performance after the 1991 reforms till 2018. Using secondary data from WITS, she shows the trends in exports and imports and evaluates broader post-reform trade performance.

Anusha and Nazneen (2021) study India's major trade partners, particularly the UK and US. Using secondary data from government reports, they explore trade trends in 2019–20 and note persisting trade imbalances. The analysis underscores the importance of bilateral trade terms and global positioning of India's trade policy, including EXIM policy schemes.

Shrestha (2021) ^[10] focuses on Nepal's foreign trade direction, with India as the largest partner. Using secondary data, he highlights Nepal's growing trade deficit with India, showing India's centrality in Nepal's overall trade patterns.

Pillai (2023), in "Decoding India's Economic Reforms: A 30- Year Review," critically evaluates reforms started in 1991. Using a qualitative review approach with secondary data and case studies, the paper assesses short- and long-term impacts of reforms, including challenges like inequality and environmental stress. Dwivedi (2023) compares India's trade in pre- and post-reform periods (1970–1990 vs. 1992–2012). Using secondary data with paired t-tests, he finds reforms significantly boosted trade

performance, establishing a strong positive relationship between reforms and trade growth.

Recent Changes in India's Foreign Trade Policy

a. Foreign Trade Policy 2023^[1]

The Foreign Trade Policy 2023^[1] introduced a more flexible framework for export promotion. Unlike earlier policies that operated on a fixed five-year cycle, the 2023 policy was designed to be dynamic and responsive to changing trade conditions. Its major objectives include increasing India's exports, reducing transaction costs, promoting districts as export hubs, encouraging e-commerce exports, and improving the ease of doing business.

The policy emphasizes four broad approaches

- Remission and rationalization of export-related duties;
- Collaboration among exporters, state governments, and local administrations;
- Improvement of the business environment through technology and process simplification; and
- Support for emerging areas such as e-commerce, logistics, and high-technology products.

The policy also attempts to expand the number of exporting firms and encourage smaller enterprises to participate in international trade. This is important because India's export base remains concentrated among relatively large firms and selected sectors.

b. Production-Linked Incentive Schemes

The Production-Linked Incentive scheme provides financial incentives to firms that achieve specified production or sales targets in selected industries. The scheme covers sectors such as electronics, pharmaceuticals, automobiles, telecommunications equipment, solar photovoltaic modules, textiles, and food processing.

Although the scheme is primarily an industrial policy, it has direct trade implications. It seeks to

- increase domestic production;
- attract multinational corporations;
- reduce dependence on imported finished goods;
- develop domestic suppliers;
- promote exports; and
- Connect Indian firms with global value chains.

The electronics sector provide a significant example. India has expanded mobile-phone assembly and electronics manufacturing, supported by domestic demand and government incentives. However, the export effect depends on whether local firms develop capabilities in design, components, research, and high-value manufacturing rather than concentrating mainly on final assembly.

c. Tariffs and Import-Management Measures

India has used tariffs and import-management measures to protect domestic industries and encourage local production. These measures have been applied to selected products, including electronics, renewable-energy equipment, chemicals, textiles, and other manufactured goods.

Tariffs can benefit domestic firms when they are temporary, targeted, and accompanied by investment in productivity. They can provide firms with time to achieve economies of scale and develop technological capabilities. However,

protection can also produce negative effects when it is prolonged or unpredictable. Indian manufacturers frequently import machinery, components, energy products, and industrial inputs. Higher import duties on these products may raise production costs and weaken export competitiveness.

Import restrictions may also create shortages or reduce consumer choice. Their effectiveness therefore depends on whether domestic suppliers can provide goods of comparable quality and price.

d. Export Restrictions and Domestic Price Management

India has periodically imposed export restrictions on agricultural commodities, minerals, and selected industrial products. These measures are generally intended to control domestic inflation, maintain food security, or stabilize domestic supply.

Such restrictions can provide short-term relief to domestic consumers. Nevertheless, they may affect long-term growth through several channels. Export restrictions reduce foreign-exchange earnings, weaken the reliability of Indian suppliers, and may encourage international buyers to diversify away from India. Frequent policy changes can also increase uncertainty for farmers, traders, processors, and foreign investors.

The conflict between domestic price stability and export expansion is particularly significant in agriculture. A sustainable policy must protect vulnerable consumers without undermining production incentives and India's credibility as a dependable exporter.

e. Free Trade Agreements

India has increasingly used free trade agreements to expand market access and integrate with international production networks. The India-Mauritius Comprehensive Economic Cooperation and Partnership Agreement, the India-United Arab Emirates Comprehensive Economic Partnership Agreement, and the India-Australia Economic Cooperation and Trade Agreement are examples of this approach. India has also continued negotiations with other trading partners and groups.

Trade agreements can generate growth through

- Lower tariffs on Indian exports;
- Greater access to foreign consumers;
- Improved conditions for services trade;
- Investment facilitation;
- Stronger supply-chain integration; and
- More predictable commercial rules.

However, the benefits depend on the competitiveness of Indian firms and the effective use of preferential market access. Rules of origin, standards, certification requirements, and limited awareness among small firms can prevent exporters from using the available preferences.

Impact on India's Economic Growth

a. Export Growth and Diversification

India's trade performance has shown resilience despite global economic uncertainty. Services exports, particularly information technology, business services, financial services, and professional services, remain a major source of foreign exchange. India has also expanded exports of

electronics, pharmaceuticals, engineering goods, chemicals, petroleum products, processed food, and selected agricultural commodities.

The growth of services exports is especially important because services generally have a higher domestic value-added component than many manufacturing exports. They also generate skilled employment and contribute to India's current-account stability.

Recent industrial policies have supported the diversification of merchandise exports. Electronics manufacturing, for example, has benefited from investment incentives and growing global demand. Pharmaceuticals and engineering products have also strengthened India's position in international markets.

However, export diversification remains incomplete. India's merchandise exports are exposed to global demand cycles, energy prices, shipping costs, and trade-policy decisions in major markets. In addition, the export sector continues to face challenges related to quality standards, delivery times, logistics, and scale.

b. Import Composition and Domestic Production

Foreign trade policies have reduced India's dependence on certain imported finished products, particularly in sectors targeted by industrial incentives. Domestic production of mobile phones and other electronics has expanded considerably. The long-term growth effect will be stronger if local production also includes components, semiconductor-related activities, tooling, and research and development.

India remains dependent on imports of crude oil, gold, electronic components, advanced machinery, and several industrial inputs. Import dependence is not necessarily undesirable. Imports of capital goods and technology can increase productivity and support future exports. The economic problem arises when trade restrictions make essential inputs more expensive without producing sufficient domestic alternatives.

A growth-oriented trade policy should therefore distinguish between

- Imports that compete directly with domestic finished goods;
- Imports that provide essential production inputs;
- Imports of capital goods and technology; and
- Imports of energy and strategic commodities.

Uniform protection across these categories may reduce rather than increase economic efficiency.

c. Investment and Global Value Chains

Trade policy affects investment by influencing market size, production costs, access to inputs, and regulatory certainty. India's large domestic market, infrastructure investment, digital public infrastructure, and production incentives have attracted investment in electronics, automobiles, pharmaceuticals, renewable energy, and telecommunications.

The relocation of some manufacturing activity from China and other East Asian economies has created an opportunity for India. International firms seeking to diversify production may use India as an export platform. To realize this opportunity, India must improve:

- Customs efficiency;
- Port and inland logistics;
- Industrial land availability;
- Electricity reliability;
- Labor-market flexibility;
- supplier networks; and
- Technical skills.

Investment incentives can initiate production, but competitive exports require productivity and efficient supply chains. If an investment depends permanently on fiscal support or high tariff protection, its contribution to sustainable growth may be limited.

d. Productivity and Technological Upgrading

International trade can increase productivity through competition, specialization, technology transfer, and access to advanced inputs. Exporting firms often improve quality, management, and production standards to meet foreign-market requirements.

India's trade and industrial policies have encouraged technological upgrading in several strategic sectors. However, the impact is uneven. Large firms and multinational corporations are more likely to benefit from incentives and compliance systems than small and medium-sized enterprises. This creates a risk that trade-led growth will remain concentrated among a limited number of firms.

Greater participation by small and medium-sized enterprises requires simplified standards, affordable trade finance, reliable digital platforms, and support for certification. It also requires stronger connections between domestic suppliers and large exporting firms.

e. Employment Effects

Trade policy affects employment through both export expansion and import competition. Labor-intensive sectors such as textiles, garments, footwear, food processing, tourism, logistics, and certain business services have substantial employment potential. Increased exports in these sectors can absorb workers moving from low-productivity agriculture to industry and services. By contrast, automation and capital-intensive production may generate high output with limited direct employment. Electronics assembly and advanced manufacturing can create skilled jobs, but their employment impact depends on the development of domestic component industries and supporting services.

Import competition can benefit consumers through lower prices but may impose adjustment costs on less competitive domestic firms. Effective policy therefore requires worker training, mobility support, and regional development measures.

f. Foreign Exchange and Macroeconomic Stability

Trade earnings support India's ability to finance imports and service external obligations. Services exports, remittances, and diversified merchandise exports provide important support for the balance of payments. Stronger exports also reduce vulnerability to external financing shocks.

At the same time, India's large dependence on imported energy exposes the trade balance to international oil prices. A rapid increase in commodity prices can widen the trade deficit even when non-oil exports perform well. The expansion of renewable energy, electric mobility, and domestic manufacturing may reduce this vulnerability over

time, although these sectors initially require imported technology and capital equipment.

Foreign trade policy must therefore be coordinated with exchange-rate policy, fiscal policy, energy policy, and industrial policy.

Research Methodology

The study uses a qualitative and descriptive research design. It reviews policy documents and statistical publications issued by the Government of India, the Reserve Bank of India, the World Trade Organization, the World Bank, and other recognized institutions.

The analysis focuses on the period from approximately 2019 to 2024, covering the effects of the COVID-19 pandemic, the Foreign Trade Policy 2023 ^[1], production-linked incentive schemes, recent free trade agreements, and changes in import and export regulation. The study evaluates trade policies through five indicators:

- Merchandise and services export performance;
- Import composition and dependence on intermediate goods;
- Foreign direct investment and manufacturing capacity;
- Employment and industrial productivity; and
- External-sector stability.

The study does not estimate a formal econometric model. Accordingly, the conclusions identify relationships and policy mechanisms rather than claiming a strictly causal estimate for any individual policy.

Research objective

- To the examination of Foreign Trade Policy 2023 ^[1] and recent trade agreements.
- To the study of the business environment through technology and process simplification.
- To the study of Productivity and Technological Upgrading:

Major Challenges

a. Policy Uncertainty

Frequent changes in tariffs, export duties, licensing procedures, and commodity restrictions increase uncertainty. Businesses may postpone investment when the expected policy environment is unclear. Policy credibility is particularly important for export industries that require long production and marketing cycles.

b. High Logistics and Transaction Costs

Indian exporters continue to face costs related to transportation, port congestion, documentation, testing, certification, and border procedures. These costs reduce the competitiveness of small firms and low-margin products.

c. Limited Domestic Input Capacity

India's export growth in several sectors depends on imported components and machinery. If trade policy raises input costs without strengthening domestic suppliers, the country may lose competitiveness. Domestic value addition must increase through technology, skills, and supplier development rather than through tariffs alone.

d. Uneven Participation of Small and Medium-Sized Enterprises

Many smaller firms lack the financial resources and knowledge required to meet international standards. They also face difficulties in obtaining working capital, export insurance, and reliable logistics. Their limited participation reduces the employment and regional-development benefits of trade.

e. Trade Deficits and Concentration

India's trade deficit reflects both structural import dependence and strong demand for energy and capital goods. Although a trade deficit is not automatically harmful, persistent deficits in specific sectors may indicate weak domestic capabilities. Export concentration in a limited number of products and markets also increases vulnerability.

f. Environmental and Social Concerns

Export-oriented industrialization can increase energy consumption, pollution, resource use, and carbon emissions. International buyers are increasingly applying environmental, social, and governance requirements. Indian exporters must therefore improve energy efficiency, traceability, labor standards, and sustainability reporting.

Policy Recommendations

a. Adopt a Stable and Predictable Trade Framework

India should reduce abrupt changes in tariffs and export restrictions. Emergency interventions may be necessary during crises, but they should be transparent, time-bound, and subject to periodic review.

b. Lower Duties on Productive Inputs

Tariff policy should distinguish between final consumer goods and imported inputs required for export production. Lower duties on capital goods, components, and advanced technology can increase productivity and improve international competitiveness.

c. Strengthen Trade Infrastructure

Investment should continue in ports, railways, roads, warehouses, cold chains, customs technology, and multimodal logistics. Faster and more reliable delivery can provide exporters with a competitive advantage even when wage costs are not the lowest.

d. Expand Support for Small and Medium-Sized Exporters

Small firms require access to trade finance, export insurance, testing facilities, digital marketplaces, certification support, and market intelligence. Export promotion should be organized around sectoral clusters and regional production capabilities.

e. Improve Use of Free Trade Agreements

The government should increase awareness of rules of origin, tariff preferences, standards, and dispute-settlement procedures. A dedicated support system can help small exporters use trade agreements more effectively.

f. Promote Domestic Value Addition

Industrial incentives should reward research and development, component manufacturing, design, intellectual property, and skill formation rather than only final assembly. This approach can increase the domestic share of export value.

g. Coordinate Trade and Human-Capital Policies:

Trade-led growth requires skilled workers. Vocational education, technical training, language skills, and management capabilities should be aligned with the needs of export-oriented sectors.

h. Integrate Sustainability into Export Strategy:

India should support clean production, renewable energy use, circular-economy practices, and environmental certification. Compliance with international sustainability requirements can protect market access and create opportunities in green industries.

Conclusion

Recent foreign trade policies have contributed positively to India's economic-growth strategy by promoting export diversification, encouraging investment, supporting manufacturing, and improving integration with international markets. The Foreign Trade Policy 2023 ^[1], production-linked incentives, and new trade agreements have created a stronger institutional basis for export expansion.

The benefits, however, are not automatic. Tariff protection and import restrictions can undermine competitiveness when they increase the cost of essential inputs or create uncertainty. India's long-term gains will depend on whether policy support produces genuine productivity growth, technological capability, employment, and domestic value addition.

A successful trade strategy should therefore combine market access with competitive domestic production. It should be predictable rather than reactive, selective rather than indiscriminate, and focused on productivity rather than protection alone. If India improves logistics, strengthens small exporters, develops local suppliers, expands skills, and uses trade agreements effectively, foreign trade can become a more powerful and inclusive source of economic growth.

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