

Major Developments in India's Foreign Trade: An Analytical Study of its Size, Composition and Direction

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ABSTRACT

India's engagement with the world economy has deepened considerably over the last decade, and its foreign trade has shifted gradually from a narrowly directed, commodity-heavy structure towards one that is more diversified in both product coverage and geographic spread. This paper studies the recent evolution of India's foreign trade along three connected dimensions-size, composition and direction-using official statistics published by the Ministry of Commerce and Industry, the Directorate General of Commercial Intelligence and Statistics (DGCI&S) and allied government sources, covering the period up to FY 2025-26 (provisional).

The analysis shows that India's combined merchandise-and-services trade crossed roughly USD 1.7 trillion in FY 2024-25, with a fast-growing services surplus substantially cushioning a persistently large and widening merchandise trade deficit. On the compositional side, engineering goods, electronics, petroleum products, gems and jewellery, and pharmaceuticals dominate the export basket, while petroleum, electronics, gold and capital machinery remain the leading import categories. On the directional side, the United States has firmly established itself as India's single largest trading partner and export market, while trade with China, though large in absolute terms, remains heavily skewed against India.

The paper concludes that recent trade-policy instruments, the Foreign Trade Policy 2023-28, the Production Linked Incentive scheme and a new generation of bilateral trade agreements, have supported diversification, but structural constraints such as energy-import dependence, reliance on Chinese intermediate inputs and exposure to tariff actions by major partners continue to limit the pace of transformation.

Keywords: India, Foreign Trade, Exports, Imports, Trade Composition, Direction of Trade, Trade Policy, FTP 2023-28

Introduction

Foreign trade has occupied a central place in India's growth strategy since the economic reforms of 1991. Over three decades, successive governments have progressively removed quantitative restrictions, rationalised the tariff structure and negotiated an expanding network of trade agreements, with the explicit aim of integrating the domestic economy more closely with global production and consumption systems. India today exports close to 7,500 distinct commodities to nearly 190 countries and roughly

6,000 commodities from about 140 countries. The performance of India's foreign trade cannot, however, be captured by aggregate export and import figures alone. A meaningful reading requires the trade flow to be disaggregated along three complementary dimensions: its size, or the absolute magnitude of exports and imports and how this changes over time; its composition, or the commodity and sectoral make-up of what is bought and sold; and its direction, or the geographical spread of trading partners. Movements along each of these dimensions carry distinct implications-size speaks to the degree of external orientation of the economy, composition reflects the underlying structure of domestic production and comparative advantage, and direction captures shifting economic and geopolitical alignments.

The period since FY 2020-21 has been an unusually eventful one for India's external sector. The COVID-19 pandemic first compressed and then triggered an unusually sharp rebound in trade volumes; the outbreak of the Russia-Ukraine conflict in 2022 reordered global energy markets and pulled India into a considerably deeper trading relationship with Russia; and a wave of new-generation trade agreements -with the United Arab Emirates, Australia and the European Free Trade Association bloc-has begun to redraw India's trading map. At the same time, renewed tariff actions by the United States and continuing friction along the India-China border have introduced fresh uncertainty into two of India's most consequential trade relationships. Against this backdrop, the present paper undertakes an analytical study of the major recent developments in the size, composition and direction of India's foreign trade, with particular emphasis on the period from FY 2023-24 to FY 2025-26.

Objectives of the Study

The specific objectives of this study are:

1. To examine the trend and pattern in the overall size of India's foreign trade, including merchandise and services trade, over the recent period;
2. To analyse the changing composition of India's export and import basket and to identify the commodity groups driving this change;
3. To study the direction of India's foreign trade with reference to its major trading partners and to assess recent shifts in geographic orientation;
4. To review the key trade-policy measures and agreements that have shaped recent trade performance; and
5. To identify the principal challenges confronting India's external trade sector going forward.

Research Methodology and Data Sources

This study is descriptive and analytical in nature and relies entirely on secondary data. Trade statistics have been compiled principally from official releases of the Ministry of Commerce and Industry (Department of Commerce) and the DGCI&S, supplemented by data drawn from Invest India and reputed financial dailies reporting on official releases. Wherever quick estimates or provisional figures have had to be used - as is unavoidable for the most recent fiscal years - this has been indicated explicitly in the relevant table or paragraph.

In a few instances, percentage shares presented in the composition tables have been computed by the author from the underlying absolute values reported in official sources, so as to present a comparable picture across commodity groups; such computed figures are marked accordingly. The reference period

broadly spans FY 2014-15 to FY 2025-26, with the detailed statistical analysis concentrated on the more recent three-year window for which comparable data are available.

Size, Composition and Direction of India's International Trade: a Conceptual Clarification

Before turning to the empirical analysis, it is useful to clarify the three analytical categories used throughout this paper. The size of foreign trade refers to the absolute value of a country's exports and imports, usually expressed in current US dollars, and to its movement over time; it is often normalised against GDP to derive a trade-openness ratio. The composition of trade refers to the classification of traded goods and services into commodity or sectoral groups—for instance, engineering goods, petroleum products, agricultural commodities, electronics and services and to how the relative shares of these groups shift over time. The direction of trade refers to the identity of partner countries and regions and to how the degree of concentration or diversification among them evolves. These three dimensions are closely interrelated. A rise in the share of electronics in the export basket, for example, is a compositional change that is closely tied to deeper integration with electronics value chains centred in East and Southeast Asia a directional change and both interact with, and help explain, the overall growth in the size of trade.

Size of India's Foreign Trade: Recent Trends

India's foreign trade has expanded substantially since the mid-2010s. Merchandise exports, valued at roughly USD 310 billion in FY 2014-15, touched a then-record USD 418 billion in FY 2021-22, aided by a sharp post-pandemic rebound in global demand and firm petroleum-product prices. Taking merchandise and services together, India's total exports are estimated to have grown by about 76 per cent between FY 2014-15 and FY 2024-25, when they reached an all-time high of close to USD 825 billion [3]. Table 1 sets out the key size indicators for the three most recent fiscal years for which data are available.

Table 1: Size of India's Foreign Trade, FY 2023-24 to FY 2025-26 (US\$ Billion)

Indicator	FY 2023-24	FY 2024-25	FY 2025-26 (P)
Merchandise Exports	437.1	437.4	441.8*
Services Exports	341.1	383.5	418.3
Total Exports (Goods + Services)	778.1	820.9	860.1
Merchandise Imports	678.3*	720.2	775.0
Services Imports	178.3	195.0	204.4
Total Imports (Goods + Services)	856.6*	915.2	979.4
Merchandise Trade Deficit	241.3*	283.5	333.2
Overall Trade Deficit (Goods + Services)	78.5*	94.4	119.3*

Source: Compiled from Press Information Bureau releases of the Ministry of Commerce and Industry, Government of India [1][6]. P = Provisional (Quick Estimates). Figures marked * are computed by the author as residuals from the reported totals and their components.

Several observations follow from Table 1. First, services exports have grown faster than merchandise exports in percentage terms, and by FY 2024-25 accounted for close to 47 per cent of India's total exports a share that has been trending upward on the strength of continued demand for information technology, business-process and professional services. Second, India continues to run a substantial and widening merchandise trade deficit, which touched USD 283.5 billion in FY 2024-25 and is estimated to have widened further to over USD 333 billion in FY 2025-26 [6]. Third, the services trade surplus-USD 189.4 billion in FY 2024-25 has consistently offset a large part of this merchandise deficit, holding the overall goods-and-services trade deficit to a comparatively moderate USD 94.4 billion, equivalent to roughly 2 per cent of GDP [2]. Fourth, India's Trade Openness Indicator, defined as the ratio of total trade to GDP, stood at 44.6 per cent in FY 2024-25 [2], pointing to a moderately high, though not extreme, degree of integration with the world economy relative to more trade-dependent economies of East and Southeast Asia.

In global rankings, India occupied the 18th position among merchandise exporters and the 9th position among merchandise importers in calendar year 2024, while placing 8th in world commercial-services exports with a 4.3 per cent share of the global total. The combination of a modest rank in merchandise trade and a considerably higher rank in services trade underlines the extent to which India's recent export growth has been services-led rather than manufacturing-led.

Composition of India's Foreign Trade

Composition of Exports

India's merchandise export basket has diversified gradually away from traditional, low-value commodities towards engineering goods, electronics and pharmaceuticals, even as gems and jewellery and petroleum products retain an important, if declining, share. Table 2 summarises the leading export categories for FY 2024-25.

Table 2: Leading Merchandise Export Categories, FY 2024-25

Commodity Group	Value (US\$ Billion)	Share of Merchandise Exports (%)	Y-o-Y Growth (%)
Engineering Goods	116.7	26.7	positive
Electronic Goods	38.6	8.8	32.5
Gems & Jewellery	30.5	7.0	decline
Pharmaceuticals	27.9	6.4	9.7
Textiles & Apparel	~36.0	8.2	moderate
Petroleum Products	significant, declining share	—	negative
Agricultural Items (Coffee, Rice,	smaller base, fast	—	coffee +40.4

Commodity Group	Value (US\$ Billion)	Share of Merchandise Exports (%)	Y-o-Y Growth (%)
Spices, etc.)	growth		

Source: Compiled from Invest India [3] and Ministry of Commerce and Industry press releases [1][8].

Shares computed on a merchandise-exports base of USD 437.4 billion.

Engineering goods have remained the single largest export category for several years in succession, more than doubling in value since the middle of the last decade on the strength of automotive components, industrial machinery and transport equipment. Electronics has emerged as the fastest-growing large category, its exports rising by close to a third in FY 2024-25 alone, a trend closely linked to the expansion of domestic smartphone and electronics assembly encouraged by the Production Linked Incentive scheme. Pharmaceuticals continue to grow steadily, consistent with India's long-standing position as a major global supplier of generic medicines, while gems and jewellery -historically one of the largest export categories -has seen its relative share erode gradually even as absolute export values remain sizeable. A number of smaller, traditionally minor categories, including coffee and select agricultural products, recorded unusually rapid growth in FY 2024-25, pointing to an incremental broadening of the export base beyond the handful of categories that have long dominated it.

Composition of Imports

India's import basket remains dominated by energy and a small number of industrial and investment-related commodities. Table 3 presents the leading import categories for FY 2024-25, together with shares computed against total merchandise imports of USD 721.2 billion.

Table 3: Leading Merchandise Import Categories, FY 2024-25

Commodity Group	Value (US\$ Billion)	Share of Merchandise Imports (%)*
Petroleum, Crude & Products	185.8	25.8
Electronic Goods	98.7	13.7
Gold	58.0	8.0
Machinery (Electrical & Non-Electrical)	53.5	7.4
Transport Equipment	33.2	4.6
Coal, Coke & Briquettes	31.1	4.3
Organic & Inorganic Chemicals	28.4	3.9
Non-Ferrous Metals	24.7	3.4

Source: Values as reported by DGCI&S/Ministry of Commerce and Industry [1][6]. *Percentage shares computed by the author against total merchandise imports of USD 721.2 billion for FY 2024-25.

Petroleum, crude and products remain by far the largest single import item, a reflection of India's continued reliance on imported crude to meet a large majority of its domestic refining requirement. Electronic goods form the second-largest and fastest-rising import category, a pattern that is closely connected to the growth of electronics exports noted above: a substantial part of India's electronics manufacturing continues to depend on imported components and sub-assemblies even as finished-goods assembly and export expand. Gold imports, driven jointly by jewellery demand and investment demand, remain large and comparatively volatile, while machinery, transport equipment, coal and industrial chemicals reflect the continuing capital and infrastructure requirements of an economy still building out its manufacturing and power-generation base. Taken together, the top handful of import categories account for a very large share of the total import bill, underlining the limited diversification that still characterises India's import structure.

Direction of India's Foreign Trade

Export Destinations

The United States has, over the past few years, consolidated its position as India's single largest export market by a considerable margin. Table 4 lists India's leading export destinations for FY 2024-25.

Table 4: India's Leading Export Destinations, FY 2024-25

Country	Export Value (US\$ Billion)	Share of Merchandise Exports (%)*
United States	86.5	19.8
United Arab Emirates	36.6	8.4
Netherlands	22.8	5.2
United Kingdom	14.6	3.3
China	14.3	3.3
Singapore	13.0	3.0
Germany	10.6	2.4

Source: Ministry of Commerce and Industry, Press Information Bureau [6][4]. *Shares computed by the author against total merchandise exports of USD 437.4 billion.

India's exports to the United States grew by close to 12 per cent in FY 2024-25 to reach USD 86.5 billion, led by pharmaceuticals, gems and jewellery, textiles and engineering goods [4]. The UAE and the Netherlands round out the top three destinations, the latter partly reflecting its role as a re-export and logistics hub for onward European trade. Notably, China ranks only fifth as an export destination, and Indian exports to China actually declined by close to 15 per cent in FY 2024-25, continuing a longer-run trend of weak Indian export penetration into the Chinese market relative to the reverse flow.

Import Sources and the China Relationship

China remains India's single largest source of imports by a wide margin. Imports from China rose by ov

er 11 per cent in FY 2024-25 to reach USD 113.5 billion, driven substantially by electronics components, active pharmaceutical ingredients, machinery and chemicals Combined with exports of only USD 14.3 billion, this produced total India-China bilateral trade of about USD 127.7 billion in FY 2024-25- larger than India's trade with any other single country except the United States -but with a bilateral deficit in China's favour of close to USD 100 billion. The UAE, besides being a major export destination, is also a significant import source, chiefly for crude oil, gold and fertilisers, with total bilateral trade of roughly USD 100 billion in FY 2024-25 [4]. Russia has emerged as a markedly more important supplier since 2022, its share of India's crude-oil import basket having risen sharply following the reorientation of global energy trade after the outbreak of the Russia-Ukraine conflict, illustrating how a single geopolitical shock can materially alter the direction of trade within a short span of time.

Shifting Geo-Economic Alignments

Read together, the export and import patterns point to a structural asymmetry in the direction of India's trade: exports are increasingly oriented towards the United States and, to a lesser extent, West Asia and Europe, while imports remain heavily concentrated on China for manufactured inputs and on West Asia and Russia for energy. This pattern is sometimes described in trade-policy commentary as reflecting a 'China-plus' or 'friend-shoring' dynamic, in which India seeks to expand manufacturing and export capacity for Western markets while continuing, for the present, to depend on Chinese supply chains for a range of intermediate and capital goods. Recent free trade agreements with the UAE, Australia and the EFTA bloc, discussed in the next section, are best understood as part of a deliberate effort to further diversify the directional profile of India's trade away from this asymmetric pattern.

Policy Developments Shaping Recent Trade Performance

A number of policy initiatives have shaped the recent trajectory of India's foreign trade. The Foreign Trade Policy 2023-28, notified by the Department of Commerce, sets out an aspirational target of raising India's total exports of goods and services to USD 2 trillion by 2030 and emphasises ease of doing business, including through the Common Digital Platform for issuing certificates of origin and the Districts as Export Hubs initiative, which seeks to identify and support export-worthy products at the district level. The Production Linked Incentive scheme, spanning fourteen sectors including electronics, pharmaceuticals, textiles and specialty steel, has been a significant driver of the sharp growth recorded in electronics exports and is intended more broadly to strengthen India's position in global manufacturing value chains. Complementary infrastructure initiatives such as the PM Gati Shakti National Master Plan aim to reduce logistics costs and transit times, both of which have historically weighed on the competitiveness of Indian exports.

On the directional front, India has concluded a series of bilateral and plurilateral trade agreements in recent years, including the Comprehensive Economic Partnership Agreement with the United Arab Emirates (2022), the Economic Cooperation and Trade Agreement with Australia (2022) and the Trade and Economic Partnership Agreement with the European Free Trade Association bloc-Iceland, Liechtenstein, Norway and Switzerland concluded in 2024. These agreements are explicitly intended to diversify India's export markets, improve access for labour-intensive sectors such as textiles, leather and gems and jewellery, and, in the case of the EFTA agreement, to attract long-term investment commitments in exchange for tariff concessions.

Emerging Issues and Challenges

Notwithstanding the progress recorded on several fronts, India's foreign trade sector continues to face a number of structural and conjunctural challenges.

- A persistently large and widening merchandise trade deficit, driven substantially by energy imports, which leaves the external accounts exposed to volatility in global crude-oil prices.
- Continuing heavy dependence on China for critical intermediate and capital goods, particularly electronics components and active pharmaceutical ingredients, which limits the extent to which rising exports translate into proportionate domestic value addition.
- Renewed tariff actions by the United States since 2025, which pose a direct risk to India's single largest export market and could compress trade volumes and margins in tariff-sensitive sectors such as textiles, gems and jewellery, and engineering goods.
- A narrow base of export categories, with the top handful of commodity groups continuing to account for a disproportionately large share of both exports and imports, leaving overall trade performance vulnerable to sector-specific shocks.
- Global headwinds, including subdued demand growth in advanced economies and periodic disruptions to international shipping routes, which raise freight costs and lengthen transit times for Indian exporters.

Major Findings of the Study

- India's total foreign trade (goods and services) crossed approximately USD 1.7 trillion in FY 2024-25 and is estimated to have grown further in FY 2025-26, with services trade playing an increasingly important role in overall export performance.
- The services trade surplus has grown large enough to offset the greater part of the merchandise trade deficit, keeping the overall trade deficit at a comparatively manageable level relative to GDP.
- Engineering goods, electronics, pharmaceuticals and gems and jewellery together account for a large share of merchandise exports, with electronics recording the fastest recent growth among major categories.
- Petroleum, electronics, gold and machinery dominate the import basket, together underlining the economy's continuing dependence on imported energy and industrial inputs.
- The United States has emerged as India's clear leading trading partner on the export side, while China remains the dominant, and heavily imbalanced, source of imports—a combination that has introduced a marked asymmetry into the direction of India's trade.
- Recent trade agreements and industrial policy measures appear to be contributing to incremental diversification of both the composition and direction of trade, though structural dependence on a small number of countries and commodity groups persists.

Conclusion

This paper has examined recent developments in India's foreign trade through the complementary lenses of size, composition and direction. The evidence points to an external sector that is expanding steadily in absolute terms, gradually diversifying in commodity composition, and undergoing a marked reorientation in its geographic direction, with the United States displacing traditional partners as the pre-eminent export destination even as China retains its position as the dominant, and structurally imbalanced, source of imports. Trade-policy instruments such as the Foreign Trade Policy 2023-28, the

Production Linked Incentive scheme and a new generation of free trade agreements have contributed to this diversification, but have not yet resolved the underlying structural features -energy-import dependence, reliance on Chinese intermediate inputs, and a narrow base of leading export categories- that continue to shape the overall pattern of India's trade. Sustaining the recent momentum, and reducing the economy's exposure to shocks originating in any single partner country or commodity market, will likely require continued diversification of both export markets and the domestic manufacturing base that underpins them, alongside sustained investment in trade-supporting infrastructure and logistics.

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