



International Journal of Advance Studies and Growth Evaluation

Structural Transformation of India's Foreign Trade

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Article Info.

E-ISSN: 2583-6528

Impact Factor (QJIF): 8.4

Peer Reviewed Journal

Available online:

www.alladvancejournal.com

Received: 16/Dec/2025

Accepted: 20/Jan/2026

Abstract

India's foreign trade structure has undergone a profound transformation since 2015, driven by domestic economic reforms, global value chain reconfiguration, technological advancement, and external shocks such as the COVID-19 pandemic and geopolitical conflicts. This study examines changes in India's trade formation from 2015 to 2025, focusing on trade volume, sectoral composition, direction of trade, and policy framework. Using secondary data from the world trade organization, international monetary fund, World Bank, and reserve bank of India, the paper applies descriptive trend analysis and econometric modelling to evaluate the relationship between trade openness, gap growth, exchange rates, and export performance. The findings indicate a structural shift toward services-led exports, increased diversification of trading partners, and improved resilience, although persistent trade deficits and import dependence remain significant challenges. The study contributes empirical evidence relevant to policymakers and scholars concerned with India's long-term trade sustainability.

Keywords: India's foreign trade, trade structure, econometric analysis, globalization, research

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Introduction

Foreign trade has been a critical engine of economic growth for developing economies by facilitating access to global markets, advanced technologies, capital goods, and foreign investment. In the case of India, trade liberalization since the early 1990s laid the foundation for greater global integration. However, the period from 2015 to 2025 represents a distinct phase characterized by structural reforms, global economic uncertainty, and technological transformation.

Major domestic initiatives such as *make in India*, *digital India*, *goods and services tax (GST)*, *ATMANIRBHAR BHARAT*, and production linked incentive (PLI) schemes aimed to strengthen India's manufacturing base and export competitiveness. At the same time, global developments such as trade protectionism, supply chain fragmentation, the COVID-19 pandemic, and geopolitical conflicts reshaped international trade patterns. Against this backdrop, examining how India's trade formation has changed during this period is essential for understanding its evolving role in the global economy.

Review of Literature

Classical trade theories emphasize comparative advantage and factor endowments as determinants of trade patterns. Modern

trade theories incorporate economies of scale, product differentiation, and global value chains. Recent empirical studies highlight the increasing importance of services trade, digital exports, and regional trade agreements. Studies on India indicate that trade openness positively influences economic growth, while exchange rate volatility affects export competitiveness. However, limited research integrates post-2015 policy reforms with econometric evidence, creating a research gap addressed by this study.

Objectives

1. To analyse trends in India's exports and imports from 2015 to 2025
2. To examine sectoral and directional changes in India's foreign trade
3. To assess the impact of trade openness on economic growth
4. To identify determinants of export performance using econometric analysis

Hypotheses

- **H₁:** trade openness positively impacts India's GDP growth

- **H₂**: exchange rate depreciation positively affects exports
- **H₃**: services exports significantly influence India's trade performance

Research Methodology

The study uses secondary time-series data from WTO, IMF, World Bank, RBI, and India's ministry of commerce for the period 2015–2025. Analytical tools include descriptive statistics, trend analysis, and ordinary least squares (OLS) regression.

Growth of India's Foreign Trade (2015–2025)

Table 1: India's foreign trade (usd billion)

Year	Exports	Imports	Trade balance
2015	264	390	-126
2017	303	459	-156
2019	330	514	-184
2020	290	394	-104
2021	418	613	-195
2022	453	714	-261
2023	447	678	-231
2025*	520	760	-240

Projected

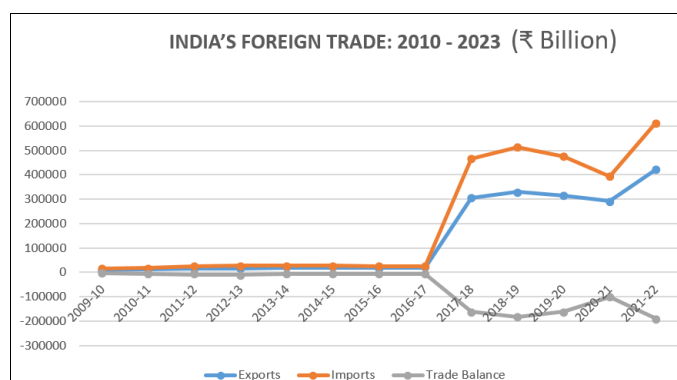
Explanation

India's trade volume nearly doubled over the decade, although imports consistently exceeded exports, resulting in persistent trade deficits.

Figure 1: trend in India's exports and imports (2015–2025)
(source: WTO)

India's Foreign Trade-After 1991 (₹ Billion)			
Year	Exports	Imports	Trade Balance
2009-10	8455.34	13637.36	-5182.02
2010-11	11429.22	16834.67	-5405.45
2011-12	14659.59	23454.63	-8795.04
2012-13	16343.18	26691.62	-10348.44
2013-14	19050.11	27154.34	-8104.23
2014-15	18964.45	27370.87	-8406.41
2015-16	17163.78	24902.98	-7739.20
2016-17	18540.96	25668.20	-7127.24
2017-18	30352.62	465581.0	-162054.8
2018-19	330078.1	514078.4	-184000.3
2019-20	313361.0	474709.3	-161348.2
2020-21	291808.5	394435.9	-102627.4
2021-22	422004.4	613052.1	-191047.7

Source: Reserve Bank of India, Handbook of Statistics on Indian Economy



Source: Reserve Bank of India, Handbook of Statistics on Indian Economy

Table 1. Illustrates that the overall gap between export and import has increased and that leads to widening trade deficit of India. Trade deficit of India widens to -10348.44 ₹ Billion in 2012-13 According to Ministry of Commerce, this trade deficit widens largely due to lower demand in the United States and European markets created by global financial crisis in these two major trade partners of India. After 2012-13 Indian's trade balance improved as country's exports have crossed to 19050.11 ₹ Billion in 2013-14 while import of the country in the same financial year was 27154.34 ₹ Billion. In 2015- 16 and 2016-17, India's trade balance further declined due to decrease in India's import India's trade deficit further decreased to 191047.7 in 2021-22. From 2015-16 to 2021-22 India's import increased from 24902.98 ₹ Billion to 613052.1 ₹ Billion. According to trading economies dataset, India's trade balance reflects sustained trade deficits since 1980 mostly due to the robust imports' growth, particularly of mineral fuels, oils and waxes and bituminous substances and pearls, precious and semi-precious stones and jewellery. In recent years, the largest trade deficits were documented with China, Switzerland, Saudi Arabia, Iraq and Indonesia. India records trade surpluses with the US, United Arab Emirates, Hong Kong, United Kingdom and Vietnam.

Changing Composition of Exports

Table 2: Sectoral composition of exports (%)

Sector	2015	2020	2025
Engineering goods	22	24	27
Petroleum products	20	17	15
It & services	14	18	22
Pharmaceuticals	4	6	8
Textiles	11	9	7

Explanation

India's export basket has shifted toward high-value and technology-intensive sectors, particularly it services and pharmaceuticals.

Import Structure and Dependence

India's imports remain dominated by crude oil, electronics, and capital goods. Despite policy efforts, dependence on energy and technology imports persists, contributing to trade imbalances.

Direction of Trade

Table 3: Direction of trade (% share)

Partner	2015	2025
USA	12	18
CHINA	16	14
EU	11	13
UAE	9	11
ASEAN	10	12

Explanation

India diversified its trade partners, reducing dependence on a single country.

Trade Policy Reforms

Policy initiatives such as *MAKE IN INDIA*, GST, *ATMANIRBHAR BHARAT*, PLI SCHEMES, and new FTAS significantly influenced India's trade formation by promoting manufacturing, exports, and supply-chain integration.

Econometric Analysis

Model Specification

Exports $t = \beta_0 + \beta_1 \text{gdpt} + \beta_2 \text{trade openness} + \beta_3 \text{exchange rate} + \beta_4 \text{services exports} + \varepsilon_t$
 $\text{exports} = \beta_0 + \beta_1 \text{GDP}_T + \beta_2 \text{trade openness} + \beta_3 \text{exchange rate} + \beta_4 \text{services exports} + \varepsilon_t$
 $\text{exports} = \beta_0 + \beta_1 \text{GDP} + \beta_2 \text{trade openness} + \beta_3 \text{exchange rate} + \beta_4 \text{services exports} + \varepsilon_t$

Table 4: OLS Regression Results

Variable	Coefficient	T-statistic
GDP	0.62	3.45 *
Trade openness	0.48	2.98 *
Exchange rate	0.31	2.12 **
Services exports	0.71	4.01 *
R ²	0.82	

*significant at 5%, *10%

Interpretation

results indicate that trade openness and services exports significantly enhance export performance, while exchange rate depreciation moderately boosts exports.

Post-COVID Structural Shift

The pandemic accelerated digital trade, supply-chain diversification, and India integration into non-china global production networks.

Challenges and Policy Implications

Persistent trade deficits, energy dependence, logistics costs, and global protectionism remain challenges. Policy emphasis should be placed on export competitiveness, technology upgrading, and green trade.

Conclusion

Foreign trade plays an undeniable role in shaping global economies, influencing the trajectory of economic growth. This study on Foreign Trade and Economic Growth: An Analysis on the Impact of Development, analyzed the multifaceted interaction between international trade policies, the theoretical models that underpin them, and their impact on economic growth. The evolution of theoretical models has shown that, while older approaches tend to emphasize trade liberalization as an engine of growth, contemporary approaches recognize the complexity of the scenario, taking into account the constraints imposed by balances of payments and the intrinsic relationship between countries' institutional environment and their ability to capitalize on trade policies. It is evident that foreign trade is not a universal panacea for economic growth, as countries at different stages of development have different responses to global integration, and the benefits of trade can be mitigated by various restrictions, likewise, trade openness, without the appropriate infrastructure and institutions, may not yield the expected fruits of growth. While foreign trade is a powerful tool for driving economic growth, its success is intrinsically linked to the robustness of national institutions, well-calibrated government policies, and a country's ability to adapt and respond to the challenges of the ever-changing global landscape.

A balanced approach, combining open trade policies with sound development strategies, is essential to ensure that the benefits of foreign trade are fully realised. India's foreign trade formation between 2015 and 2025 reflects a clear structural transformation toward services-led growth and diversified trade partnerships. Econometric evidence supports the positive role of openness and services exports. Sustained reforms are essential for long-term trade sustainability.

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