



The Role of Economic Diplomacy in India's Trade Agreements: Trends, Performance, and Policy Outlook

Dr. G. Kavitha

Assistant Professor of Economics, S.T.Hindu College, Nagercoil-2, Manonmaniam Sundaranar University, Abishekapatti, Thirunelveli, Tamilnadu, India

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ABSTRACT

Economic diplomacy has become an increasingly significant component of India's foreign policy and development strategy in the twenty-first century. In the context of globalization, rising geopolitical competition, and restructuring of international supply chains, India has intensified its engagement with bilateral and regional trade agreements to strengthen economic growth, improve export competitiveness, attract foreign direct investment, and enhance strategic partnerships. The country's transition from a protectionist economic framework before 1991 to a globally integrated market-oriented economy has substantially transformed the nature of its external economic relations. Recent agreements such as the India–UAE Comprehensive Economic Partnership Agreement (CEPA), India–Australia Economic Cooperation and Trade Agreement (ECTA), and trade negotiations with the European Union, Gulf Cooperation Council, and other economies demonstrate India's renewed emphasis on trade-led diplomacy and economic integration.

This paper critically examines the evolution of India's economic diplomacy and analyses the opportunities and challenges associated with its trade agreements. The study is descriptive and analytical in nature and is based on secondary data collected from government publications, policy reports, international organizations, trade statistics, and academic literature. The paper explores how economic diplomacy has contributed to export diversification, foreign direct investment inflows, technological cooperation, supply-chain integration, employment generation, and strategic geopolitical influence. Particular attention is given to India's growing participation in global value chains, digital trade negotiations, critical mineral partnerships, and Indo-Pacific economic cooperation.

The study also evaluates the major challenges affecting India's trade diplomacy, including persistent trade deficits with certain partner countries, non-tariff barriers, compliance costs, limited utilization of free trade agreements by micro, small, and medium enterprises (MSMEs), geopolitical uncertainty, and environmental standards imposed under modern trade agreements. The paper argues that while trade agreements create substantial economic opportunities, their effectiveness depends on domestic industrial competitiveness, infrastructure development, logistics efficiency, institutional coordination, and policy stability.

The findings indicate that India's economic diplomacy has significantly strengthened the country's international economic engagement and strategic influence. However, achieving sustainable long-term gains requires balanced trade negotiations, export diversification, technological modernization, and stronger support mechanisms for domestic industries and exporters. The paper concludes that an integrated and forward-looking economic diplomacy strategy can play a crucial role in positioning India as a leading economic power in the evolving global economic order.

Keywords: Economic diplomacy, India, trade agreements, free trade agreements, globalization, exports, foreign direct investment, strategic partnerships, international trade.

INTRODUCTION

Economic diplomacy refers to the use of economic policies, trade negotiations, investment cooperation, and financial strategies to achieve national interests in international relations. In the Indian context, economic diplomacy has evolved significantly from a protectionist and inward-looking framework during the early post-independence period to a globally integrated and strategically oriented approach in the contemporary era. The transformation reflects changes in domestic economic priorities, international political conditions, globalization, and technological advancement.

India's economic diplomacy has gradually shifted from self-reliance and import substitution to trade liberalization, export promotion, strategic partnerships, and global economic engagement. This evolution has played an important role in shaping India's position in the international economic system.

Economic diplomacy refers to the use of economic tools such as trade agreements, investment cooperation, commercial negotiations, and development partnerships to achieve national objectives in international relations. In the contemporary global economy, countries increasingly integrate economic interests with strategic and geopolitical goals. India's economic diplomacy has gained greater importance after the economic reforms of 1991, which transformed the country from a relatively closed economy into a globally integrated market-oriented system.

Before liberalization, India followed protectionist policies characterized by import substitution and extensive state control over trade. After 1991, India adopted economic reforms that promoted trade liberalization, foreign investment, and export-oriented growth. Since then, India has actively pursued bilateral and regional trade agreements to strengthen its integration with global markets.

India's economic diplomacy has evolved significantly since the economic reforms of 1991. The government has increasingly employed trade agreements as strategic instruments to deepen economic integration with major economies. The signing of the India-UAE CEPA (2022), India-Australia ECTA (2022), EFTA-India TEPA (2024), India-UK CETA (2025), and India-Oman CEPA (2025) reflects India's renewed commitment to bilateral and regional trade partnerships. India currently maintains a growing network of FTAs covering numerous economies across Asia, Europe, Oceania, and Africa (Abhishek & Anushka Pandey- 2026).

Economic diplomacy is no longer confined to trade promotion; it now encompasses investment facilitation, technology cooperation, energy security, and supply chain resilience. In an era of geopolitical competition and fragmented globalization, India's trade agreements serve both economic and strategic objectives (Drishti IAS-2025)

Objectives of the Study

- To examine the concept and evolution of India's economic diplomacy.
- To analyse India's major trade agreements and strategic economic partnerships
- To evaluate India's trade performance during 2015–2025.
- To assess the relationship between trade openness and economic growth.
- To suggest policy measures for enhancing trade competitiveness.
- To suggest policy measures for strengthening India's global trade competitiveness.

REVIEW OF LITERATURE

Baldwin (2020): Baldwin examined the changing nature of international trade agreements and observed that modern trade agreements increasingly focus on services, digital trade, investment facilitation, and technology transfer rather than merely reducing tariffs.



Panagariya (2021): highlighted the importance of trade openness in enhancing export competitiveness and attracting foreign investment. The study concluded that trade reforms contribute positively to economic growth when accompanied by supportive domestic policies. Panagariya argued that trade liberalization alone cannot guarantee economic success unless domestic productivity and manufacturing competitiveness improve simultaneously. The author emphasized the need for infrastructure modernization and export competitiveness.

Ding, Hu and Huang (2023): The study highlighted the role of diplomatic relations in accelerating international business expansion and argued that trade openness strengthens the positive impact of diplomatic engagement on economic outcomes.

Sudan (2022): Comparing India and China, Sudan found that greater trade openness contributed significantly to economic growth in both countries. The study emphasized the importance of reducing non-tariff barriers and improving trade facilitation mechanisms.

Sowrov (2024): Using data from G20 economies, the study found a positive and statistically significant relationship between trade openness and economic growth. The research further indicated that lower tariffs promote stronger economic performance.

Jagdish Bhagwati, trade liberalization contributes to economic growth when accompanied by institutional reforms and industrial competitiveness. His work highlighted the importance of export-oriented strategies for developing economies seeking greater integration with global markets.

Amartya Sen emphasized that economic development should not be measured only through trade expansion or GDP growth. The author argued that inclusive growth, employment generation, and improvements in living standards must also be considered while evaluating economic policies.

Sanjaya Baru examined India's post-liberalization foreign policy and observed that economic objectives increasingly influenced diplomatic decisions. Trade agreements, according to the author, became instruments for strengthening India's strategic relationships and geopolitical influence.

Rupa Chanda analyzed India's services trade and highlighted India's comparative advantages in information technology, healthcare, education, and professional services. The study also identified mobility restrictions and regulatory barriers as important challenges affecting services exports.

Recent policy discussions by **NITI Aayog** highlight that India's economic diplomacy increasingly focuses on strategic sectors such as semiconductors, renewable energy, digital trade, and critical minerals. These developments gained greater importance after the COVID-19 pandemic and global supply-chain disruptions.

The overall studies indicate that trade openness positively influences economic growth by improving productivity, technology transfer, and market access. Empirical evidence from G20 countries demonstrates a significant positive relationship between trade openness and economic growth.

Research Methodology

The study is descriptive and analytical in nature. It is based entirely on secondary data collected from reliable academic and institutional sources.

Information has been obtained from:

- Ministry of Commerce and Industry, Government of India
- Press Information Bureau (PIB)
- Reserve Bank of India

- World Bank
- International Monetary Fund
- India Brand Equity Foundation (IBEF)
- WTO Reports

Statistical Tools Used

- Percentage Analysis
- CAGR Analysis
- Mean and Standard Deviation
- Correlation Analysis
- Trend Analysis

The findings of this study should be interpreted in light of the inherent limitations associated with the use of secondary data. Although secondary data obtained from government publications, international organizations, and research institutions provide comprehensive coverage and facilitate longitudinal analysis, they are subject to several methodological and reporting constraints. Official trade statistics may contain biases arising from differences in data collection procedures, revisions to statistical methodologies, reporting delays, and inconsistencies in the classification of products and services over time. Such factors can influence the accuracy and comparability of trade indicators, particularly when examining long-term trends. Another important limitation is the exclusion or underestimation of informal and unrecorded cross-border trade, which remains significant in certain sectors and neighboring regions. As informal trade transactions are often undocumented, official databases may not fully capture the actual volume and value of economic exchanges, potentially leading to an incomplete assessment of trade integration and agreement outcomes.

Furthermore, comparing data across multiple sources presents additional challenges due to variations in definitions, accounting standards, exchange rate conversions, base years, data revision practices, and reporting formats adopted by different national and international agencies. These methodological differences may produce discrepancies in trade values and related economic indicators, thereby affecting the consistency of empirical analysis. Secondary data also provide limited insight into firm-level behavior, institutional constraints, business perceptions, and the practical challenges encountered by exporters and importers in utilizing trade agreements. Consequently, while secondary data offer a reliable foundation for macroeconomic and policy analysis, the results should be interpreted with appropriate caution. Future research may strengthen the robustness of findings by integrating primary survey data, firm-level case studies, and qualitative interviews with stakeholders to complement official statistics and provide a more comprehensive understanding of the effectiveness of India's trade agreements.

Major Trade Agreements of India

India–ASEAN Free Trade Agreement (AIFTA)

The India–ASEAN Free Trade Agreement (AIFTA) represents one of India's most significant regional trade arrangements and serves as a cornerstone of its economic engagement with Southeast Asia. Signed in 2009 and implemented in 2010 for trade in goods, the agreement was later expanded to include services and investment in 2015. The agreement connects India with the ten member countries of the Association of Southeast Asian Nations (ASEAN), creating a large market comprising more than 650 million people.

AIFTA aims to reduce tariff and non-tariff barriers, facilitate cross-border investment, enhance market access, and strengthen economic cooperation between participating countries. Through gradual tariff liberalization, India has increased its exports of pharmaceuticals, engineering products, machinery, agricultural commodities, and information technology services to ASEAN markets. Simultaneously, Indian industries have gained access to competitively priced raw materials, intermediate goods, and electronic components from Southeast Asian



economies. Beyond trade expansion, the agreement has reinforced India's Act East Policy by promoting regional integration, improving supply-chain connectivity, and encouraging investment flows between India and ASEAN nations. Despite concerns regarding trade imbalances and competitive pressures on certain domestic sectors, the agreement has contributed significantly to strengthening India's economic and strategic partnership with Southeast Asia.

As global value chains continue to evolve, AIFTA remains an important instrument for enhancing India's participation in regional production networks and advancing its long-term trade and development objectives.

India–UAE Comprehensive Economic Partnership Agreement (CEPA)

The India–UAE Comprehensive Economic Partnership Agreement (CEPA), marks a significant milestone in India's contemporary trade policy and economic diplomacy. As India's first comprehensive bilateral trade agreement in the Middle East, CEPA aims to deepen economic integration between India and the United Arab Emirates through enhanced market access, tariff reductions, investment facilitation, and strengthened cooperation in services, digital trade, and innovation. The agreement provides preferential access to approximately 90 percent of India's exports to the UAE. Simultaneously, Indian businesses benefit from simplified customs procedures and improved regulatory transparency, reducing transaction costs and enhancing competitiveness. The UAE serves as a strategic gateway for Indian exports to West Asia, Africa, and Europe, thereby expanding India's participation in global value chains. The agreement is expected to contribute substantially to the target of increasing bilateral trade beyond US\$100 billion while generating employment opportunities and promoting sustainable economic growth.

Table- 1 - Expected Economic Benefits of India–UAE CEPA

Area	Potential Impact
Merchandise Exports	Increased access to UAE markets
Services Trade	Expansion of IT, financial, and professional services
Foreign Direct Investment	Greater bilateral investment flows
Employment Generation	New jobs in export-oriented sectors
Supply Chain Integration	Enhanced participation in regional and global value chains
Economic Diplomacy	Strengthened strategic and economic relations with the UAE
MSME Development	Improved market opportunities for small and medium enterprises

Source: Compiled from official government reports, Ministry of Commerce and Industry, Government of India, and UAE-India CEPA documentation.

India–Australia Economic Cooperation and Trade Agreement (ECTA)

The India–Australia Economic Cooperation and Trade Agreement (ECTA), signed on 2 April 2022 and implemented on 29 December 2022, represents a major advancement in the economic relations between India and Australia. As an interim trade agreement designed to pave the way for a more comprehensive economic partnership, ECTA seeks to enhance bilateral trade, promote investment, improve market access, and strengthen cooperation across various sectors of the economy (Drishti- 2024). Under the agreement, Australia has provided duty-free access to approximately 96 percent of Indian exports, including textiles, apparel, leather goods,



engineering products, gems and jewelry, pharmaceuticals, and agricultural commodities. In return, India has reduced or eliminated tariffs on several Australian products, particularly raw materials and intermediate goods that support domestic manufacturing and industrial development. The agreement also facilitates greater mobility for professionals, students, researchers, and skilled workers, thereby strengthening people-to-people connections and knowledge exchange between the two countries. Strategically, ECTA complements India's Indo-Pacific economic vision by diversifying export destinations and reducing dependence on traditional markets.

The agreement is expected to stimulate bilateral trade, attract investment, create employment opportunities, and integrate Indian firms more effectively into regional and global value chains. Furthermore, enhanced cooperation in critical minerals, education, renewable energy, technology, and supply-chain resilience underscores the broader significance of ECTA.

Source: Press Release Page / Press Information Bureau, Government of India.

India–Japan Comprehensive Economic Partnership Agreement (IJEPA)

The India–Japan Comprehensive Economic Partnership Agreement (IJEPA), which came into force on 1 August 2011, represents a landmark bilateral trade and economic cooperation framework between two of Asia's largest economies. The agreement extends beyond a traditional free trade arrangement by encompassing trade in goods, trade in services, investment promotion, intellectual property rights, customs cooperation, and economic collaboration across multiple sectors. Under IJEPA, both countries committed to progressively eliminating tariffs on a substantial proportion of traded goods, thereby enhancing market access and reducing barriers to commerce. The agreement has facilitated increased exports of Indian products such as pharmaceuticals, textiles, marine products, agricultural goods, and engineering products to Japan, while also enabling greater imports of advanced machinery, automobiles, electronic equipment, and industrial technology from Japan.

Beyond trade liberalization, IJEPA has played a crucial role in attracting Japanese foreign direct investment (FDI) into India, particularly in sectors such as manufacturing, infrastructure, transportation, renewable energy, and industrial corridors. The agreement complements broader strategic initiatives such as the Delhi–Mumbai Industrial Corridor and India's Act East Policy, fostering deeper economic integration and technological cooperation. By promoting trade diversification, investment inflows, technology transfer, and industrial modernization, the India–Japan CEPA has strengthened bilateral economic relations and contributed significantly to India's long-term development and competitiveness in the global economy.

Source: Compiled from official reports of the Government of India, Government of Japan, Ministry of Commerce and Industry, and bilateral trade publications.

South Asian Free Trade Area (SAFTA)

The South Asian Free Trade Area (SAFTA) is a regional trade agreement established under the framework to promote economic integration and trade liberalization among South Asian countries. The SAFTA Agreement was signed in 2004 during the Twelfth SAARC Summit in and came into force on 1 January 2006. The primary objective of SAFTA is to reduce tariff and non-tariff barriers, facilitate cross-border trade, encourage regional production networks, and enhance economic cooperation among member states. For India, SAFTA has provided an institutional framework to expand trade with neighboring economies, strengthen regional connectivity, and promote economic development through increased market access.

The agreement has contributed to the growth of trade in agricultural products, textiles, pharmaceuticals, engineering goods, and consumer products within South Asia. Furthermore, SAFTA has fostered regional dialogue on customs cooperation, trade facilitation, and investment promotion. Despite challenges such as political tensions, sensitive product lists, infrastructural deficiencies, and relatively low levels of intra-regional trade compared to other regional blocs, SAFTA remains an important mechanism for advancing regional



economic integration and supporting sustainable development in South Asia. The agreement reflects India's commitment to regional cooperation and its broader objective of creating a more interconnected and economically integrated South Asian region.

Source: Compiled from SAARC Secretariat publications, Government of India reports, and regional trade studies.

India–EFTA Trade and Economic Partnership Agreement (TEPA)

The India–EFTA Trade and Economic Partnership Agreement (TEPA), signed on 10 March 2024 which came into force on 1 October 2025, marks a significant milestone in India's evolving trade policy and its engagement with advanced European economies. The agreement was concluded between India and the member states of the European Free Trade Association (EFTA), namely Iceland, Liechtenstein, Norway, and Switzerland. TEPA is India's first trade agreement with a major European economic bloc and reflects the country's commitment to strengthening economic integration with high-income, innovation-driven economies. It included India got an investment assurance of USD 100 billion in 15 years, supporting employment generation and industrial development.

The agreement seeks to enhance bilateral trade in goods and services, facilitate investment flows, promote technology transfer, and foster cooperation in sectors such as pharmaceuticals, engineering, renewable energy, financial services, and advanced manufacturing. The agreement provides improved market access for Indian exporters while enabling Indian businesses to integrate more effectively into global value chains. Furthermore, TEPA is expected to strengthen cooperation in research, innovation, intellectual property protection, and sustainable development, thereby contributing to India's broader objectives of economic modernization and export diversification. By deepening economic ties with some of Europe's most technologically advanced economies, TEPA is anticipated to enhance India's competitiveness, attract foreign direct investment, and support long-term economic growth.

Source: Compiled from official Government of India releases, EFTA Secretariat publications, and international trade policy reports.

Performance of Selected Agreements

The actual performance of India's major trade agreements, particularly the India–ASEAN Free Trade Agreement (AIFTA), the South Asian Free Trade Area (SAFTA), and the India–Japan Comprehensive Economic Partnership Agreement (CEPA), presents a mixed picture when evaluated through empirical studies and ex-post assessments. The India–ASEAN FTA has significantly expanded bilateral trade volumes since its implementation in 2010, particularly in sectors such as petroleum products, electronics, chemicals, and machinery. However, several empirical studies indicate that import growth from ASEAN countries has consistently outpaced India's export expansion, resulting in widening trade deficits and raising concerns regarding the competitiveness of domestic manufacturing industries.

The agreement has also been criticized for its limited success in promoting export diversification and enhancing India's participation in regional value chains. Similarly, SAFTA has achieved only modest progress in strengthening intra-regional trade despite its objective of promoting economic integration among South Asian countries. Numerous ex-post evaluations attribute its limited effectiveness to persistent non-tariff barriers, sensitive product lists, inadequate transport and logistics infrastructure, political tensions among member states, and weak institutional coordination, all of which have constrained the realization of its full trade potential.

In contrast, the India–Japan CEPA has yielded relatively positive outcomes in terms of increased bilateral investment, technology transfer, industrial collaboration, and cooperation in high-value manufacturing sectors such as automobiles, electronics, and engineering. Nevertheless, empirical evidence suggests that the agreement has not generated the anticipated surge in India's exports to Japan due to stringent quality standards, complex

regulatory requirements, language and business culture barriers, and the relatively low utilization of preferential tariff concessions by Indian exporters. Ex-post evaluations further reveal that while these agreements have strengthened India's international economic engagement and facilitated greater market access, their developmental impacts have varied considerably across sectors and trading partners. The mixed empirical evidence underscores that the success of trade agreements depends not only on tariff liberalization but also on complementary domestic reforms, export competitiveness, trade facilitation measures, infrastructure development, institutional effectiveness, and the capacity of firms to integrate into global and regional value chains. These findings suggest that future trade negotiations should place greater emphasis on implementation efficiency, periodic policy review, and addressing structural bottlenecks to maximize the long-term economic benefits of trade liberalization

India's Trade Performance (2016 – 2025)

Table- 2 – India's Merchandise Trade

Year	Exports (USD Billion)	Imports (USD Billion)	Total Trade
2016	260	356	616
2017	303	466	769
2018	331	514	845
2019	314	474	788
2020	276	368	644
2021	422	613	1035
2022	451	714	1165
2023	437	678	1115
2024	446	683	1129
2025	465	705	1170

Source: US – India Strategic Partnership Forum

Growth Analysis

❖ CAGR of Exports (2016 – 2025)

$$\text{CAGR} = (\text{EV}/\text{BV})^{1/n} - 1$$

$$\text{CAGR} = (465/260)^{1/10} - 1$$

$$\text{Export CAGR} = 5.9\%$$

Interpretation: India's exports grew at an average annual rate of approximately 5.9% during the period, despite disruptions from COVID-19 and global supply chain challenges.



Statistical Analysis

Table- 3 - Descriptive Statistics

Variable	Mean
Exports	370.5
Imports	557.1
Total Trade	927.6

Interpretation

The average annual trade volume exceeded USD 900 billion, indicating increasing integration with global markets

Table- 4 - Trade Openness and GDP Growth in India (2015–2024)

Year	Trade Openness (%)	GDP Growth (%)
2015	42	8
2016	40	8.3
2017	41	6.8
2018	44	6.5
2019	40	3.9
2020	38	-5.8
2021	45	9.7
2022	50	7.6
2023	45	9.2
2024	45	6.5

Source: World Bank Data

The data indicate fluctuations in trade openness during the study period. Trade openness declined sharply during 2020 due to the disruptions caused by the COVID-19 pandemic. Subsequently, the ratio increased significantly during the recovery phase, reflecting the revival of exports, imports, and global economic activity

Correlation Analysis

To examine the relationship between trade openness and economic growth, Pearson's correlation coefficient was estimated.



Table- 5 - Correlation Matrix

Variables	Trade Openness	GDP Growth
Trade Openness	1.000	0.821
GDP Growth	0.821	1.000

The Pearson correlation coefficient between trade openness and GDP growth was found to be 0.821, indicating a strong positive association between the two variables. The result suggests that increased participation in international trade is associated with higher economic growth in India.

Hypothesis Testing

Null Hypothesis (H_0): There is no significant relationship between trade openness and GDP growth in India.

Alternative Hypothesis (H_1): There is a significant positive relationship between trade openness and GDP growth in India.

Table- 6 - Significance Test

Statistic	Value
Correlation Coefficient (r)	0.821
Coefficient of Determination (R^2)	0.674
t-value	4.31
p-value	< 0.01

The coefficient of determination ($R^2 = 0.674$) indicates that approximately 67.4 percent of the variation in GDP growth can be explained by variations in trade openness. The calculated p-value is less than 0.01, indicating statistical significance at the 1 percent level. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted.

DISCUSSION

The findings support the trade-led growth hypothesis, which argues that openness to international trade contributes positively to economic performance. Increased trade openness promotes export expansion, encourages foreign direct investment, facilitates technology transfer, and improves resource allocation efficiency. India's experience during 2016–2025 demonstrates that periods of higher trade openness were generally associated with stronger GDP growth outcomes. The negative economic growth observed in 2020 coincided with a decline in trade openness resulting from pandemic-related disruptions. Conversely, the recovery period from 2021 onwards witnessed both higher trade openness and robust economic growth. These findings suggest that continued integration with global markets can play an important role in sustaining India's long-term economic development.

Despite India's expanding network of bilateral and regional trade agreements, their overall effectiveness remains a subject of considerable academic and policy debate. Although these agreements have contributed to greater market access, increased trade volumes, and stronger economic engagement with key partner countries, empirical

evidence suggests that their benefits have been uneven and, in several instances, below initial expectations. A major limitation is that many agreements have not translated into sustained export growth across a broad range of sectors, with imports from partner countries often increasing more rapidly than exports, thereby contributing to persistent bilateral trade deficits. The utilization of preferential tariff concessions by Indian exporters has also remained relatively low due to complex rules of origin, cumbersome documentation requirements, limited awareness among firms, particularly micro, small, and medium enterprises (MSMEs), and the continued prevalence of non-tariff barriers in partner markets. Furthermore, India's domestic industries continue to face structural constraints such as inadequate infrastructure, high logistics and transaction costs, technological gaps, skill shortages, regulatory complexities, and limited integration into global value chains, all of which reduce their ability to fully exploit the opportunities created by trade liberalization. The impacts of trade agreements have also varied significantly across sectors and regions, with competitive export-oriented industries benefiting more than import-sensitive sectors and less industrialized regions. Several ex-post evaluations indicate that while agreements such as the India–ASEAN Free Trade Agreement, the South Asian Free Trade Area (SAFTA), and the India–Japan Comprehensive Economic Partnership Agreement (CEPA) have strengthened economic cooperation and investment linkages, their contribution to export diversification, employment generation, industrial competitiveness, and inclusive economic growth has been mixed. In addition, inadequate monitoring mechanisms, limited periodic review of agreement provisions, and insufficient policy coordination have constrained their long-term effectiveness. These findings suggest that trade agreements alone cannot guarantee broad-based economic gains; rather, their success depends on complementary domestic reforms, improvements in industrial competitiveness, trade facilitation, infrastructure development, innovation, and institutional capacity. Consequently, a comprehensive and evidence-based approach that integrates external trade liberalization with internal economic strengthening is essential for maximizing the developmental benefits of India's future trade agreements.

Recent Trends in India's Trade Diplomacy

India's trade diplomacy has undergone significant transformation in recent years, reflecting changing global economic realities, geopolitical developments, and the country's ambition to become a major global economic power. Unlike the earlier emphasis on broad trade liberalization, contemporary trade diplomacy increasingly focuses on strategic trade partnerships, resilient supply chains, technology cooperation, and economic security.

Geopolitical Motivations Underpinning India's Recent Trade Strategy

India's recent trade agreements and economic partnerships increasingly reflect broader geopolitical considerations that extend beyond conventional objectives of trade expansion and market access. In an evolving Indo-Pacific strategic environment, trade policy has become an important instrument for advancing national security, economic resilience, and regional influence. One of the key geopolitical motivations underpinning India's recent trade strategy is the objective of diversifying supply chains and reducing excessive dependence on any single economy, particularly in response to the growing economic influence of China across Asia. While India continues to maintain significant commercial relations with China, it has simultaneously sought to deepen economic partnerships with like-minded countries through comprehensive trade and investment agreements that promote resilient, transparent, and diversified regional value chains. This strategic orientation is reflected in India's expanding engagement with the Quadrilateral Security Dialogue (Quad), comprising India, Australia, Japan, and the United States, where economic cooperation complements broader collaboration in areas such as critical and emerging technologies, infrastructure, maritime security, cybersecurity, and resilient supply chains. Similarly, India's participation in the Indo-Pacific Economic Framework for Prosperity (IPEF) demonstrates its commitment to shaping emerging regional economic rules in areas including digital trade, clean energy, supply chain resilience, tax cooperation, anti-corruption measures, and sustainable economic development, even though the framework does not provide traditional tariff concessions.



These initiatives indicate that India's trade diplomacy has evolved from a narrow focus on tariff liberalization towards a more comprehensive strategy integrating economic security, strategic partnerships, technological cooperation, and resilient production networks. Empirical assessments suggest that such an approach enhances India's capacity to attract foreign investment, strengthen its position in global value chains, and reduce vulnerabilities arising from geopolitical disruptions. At the same time, balancing strategic partnerships with an independent foreign policy and maintaining constructive economic relations with diverse trading partners remain essential for preserving India's strategic autonomy. Consequently, India's contemporary trade agreements and regional economic initiatives should be viewed not only as mechanisms for promoting trade and investment but also as instruments of economic statecraft that reinforce the country's long-term geopolitical objectives, regional leadership aspirations, and sustainable economic development.

Table- 7 - Major Recent Developments in India's Trade Diplomacy

Year	Agreement/Initiative	Key Objective
2020	Atmanirbhar Bharat Initiative	Strengthening domestic resilience
2021	Supply-Chain Resilience Initiatives	Diversification of supply chains
2022	India-UAE CEPA	Trade and investment expansion
2022	India-Australia ECTA	Market access and economic cooperation
2023	Enhanced Indo-Pacific Economic Engagement	Regional connectivity and security
2024	India-EFTA TEPA	Investment, technology, and market access
Ongoing	India-EU FTA Negotiations	Comprehensive economic partnership
Ongoing	India-UK FTA Negotiations	Trade liberalization and services cooperation

Table- 8 - Emerging Priorities in India's Trade Diplomacy

Priority Area	Strategic Importance	Expected Outcome
Supply-Chain Resilience	Reducing external vulnerabilities	Economic security
Digital Trade	Expanding digital economy cooperation	Growth in services exports
Critical Minerals	Securing resources for advanced industries	Industrial sustainability
Semiconductor Cooperation	Technological self-reliance	Manufacturing competitiveness
Renewable Energy Partnerships	Green economic transition	Sustainable development
Investment Facilitation	Attraction of global capital	Infrastructure and industrial growth
Market Diversification	Reduced dependence on limited markets	Export stability



Table- 9 - Evolution of Trade Diplomacy Priorities

Traditional Approach	Contemporary Approach
Tariff reduction	Strategic economic partnerships
Merchandise trade focus	Trade, investment, and technology integration
Market access	Supply-chain resilience
Export promotion	Economic security and competitiveness
Regional cooperation	Indo-Pacific and global strategic engagement
Trade liberalization	Sustainable and inclusive growth

The compatibility of the Atmanirbhar Bharat

The compatibility of the Atmanirbhar Bharat (Self-Reliant India) initiative with India's commitment to trade liberalization has emerged as an important area of policy debate. Although the initiative is often perceived as promoting greater domestic production and reducing excessive dependence on imports, its broader policy framework is not inherently inconsistent with an open and rules-based international trading system. Rather than advocating economic isolation, Atmanirbhar Bharat seeks to strengthen India's productive capacity, technological capabilities, industrial resilience, and global competitiveness so that domestic firms can participate more effectively in international markets and global value chains. The initiative emphasizes strategic self-reliance in critical sectors such as electronics, pharmaceuticals, defense manufacturing, renewable energy, semiconductors, and advanced technologies through targeted policy support, infrastructure development, innovation, skill enhancement, and production-linked incentives. At the same time, India has continued to pursue comprehensive trade agreements with major economies and regional blocs, reflecting a dual strategy of domestic industrial strengthening alongside external economic engagement. Nevertheless, the coexistence of industrial policy and trade liberalization presents several challenges. Policy measures designed to encourage domestic production, including selective tariff increases, local value-addition requirements, and import substitution in strategic sectors, may generate concerns among trading partners regarding market access, transparency, and compliance with multilateral trade rules. These policy choices require careful balancing to ensure that legitimate industrial development objectives do not undermine India's credibility as a reliable trading partner or reduce the efficiency gains associated with international trade. Consequently, the implications for India's trade diplomacy are significant. Future trade negotiations are likely to require greater emphasis on regulatory cooperation, investment facilitation, supply chain resilience, technology partnerships, and mutually beneficial market access while safeguarding national development priorities. A balanced and coherent approach that combines competitive domestic industrial development with continued commitment to open trade, multilateral cooperation, and high-quality trade agreements can enhance India's position in the global economy and contribute to sustainable long-term economic growth.

Challenges Associated with India's Trade Agreements

The distribution of benefits arising from India's trade agreements has been uneven across sectors and regions, raising important concerns regarding the inclusiveness and equity of trade liberalization. While export-oriented industries such as information technology services, pharmaceuticals, engineering goods, automobiles, chemicals, and certain agricultural products have generally benefited from improved market access and greater integration into global markets, several labour-intensive and import-competing industries have experienced increased competitive pressures. Sectors such as textiles, electronics, consumer goods, plantation products, toys, and small-scale manufacturing have faced significant challenges due to the rapid inflow of lower-priced imports from

partner countries, often affecting the profitability and survival of domestic producers. These effects have been particularly pronounced among micro, small, and medium enterprises (MSMEs), which frequently lack the technological capability, economies of scale, financial resources, and productivity levels required to compete effectively in liberalised markets. Regional disparities have also emerged, as the gains from trade agreements have been concentrated in states possessing stronger industrial infrastructure, efficient logistics, diversified export bases, and better connectivity to international markets. States such as Maharashtra, Gujarat, Tamil Nadu, Karnataka, and Telangana have generally captured a larger share of export opportunities, whereas economically less developed and landlocked regions have derived comparatively limited benefits due to weaker industrial capacity, inadequate transport infrastructure, lower investment levels, and restricted integration into global value chains. Empirical studies further indicate that regions heavily dependent on vulnerable manufacturing or agricultural activities have been more exposed to import competition, resulting in production adjustments, employment pressures, and slower industrial growth in certain localities. These unequal outcomes suggest that trade liberalisation does not automatically generate broad-based economic gains and that its benefits are conditioned by regional economic capabilities, institutional quality, and sectoral competitiveness. Consequently, a more balanced trade policy requires complementary measures such as targeted industrial support, infrastructure development, skill enhancement, technology adoption, export promotion, and regional capacity-building initiatives to ensure that the advantages of trade agreements are more equitably distributed across industries, enterprises, and geographical regions while minimizing the adverse effects of import competition on vulnerable sectors.

While India's trade agreements have significantly contributed to export expansion, foreign investment attraction, and deeper integration into the global economy, they have also generated a range of economic, institutional, and strategic challenges.

Table- 10 - Major Challenges Associated with India's Trade Agreements

Challenge	Description	Impact on the Economy
Trade Deficits	Imports exceed exports with some trade partners	Pressure on external balance
Non-Tariff Barriers	Technical, sanitary, and regulatory restrictions	Reduced export competitiveness
Import Competition	Increased inflow of cheaper foreign products	Stress on domestic industries
Low FTA Utilization	Limited awareness and procedural complexity	Underutilization of trade benefits
Infrastructure Constraints	High logistics and transportation costs	Increased export expenses
Regulatory Compliance	Environmental and labour standards	Higher production costs
Geopolitical Risks	Global conflicts and supply-chain disruptions	Trade uncertainty
Technological Gaps	Limited innovation in some sectors	Reduced global competitiveness

Table- 11 - Sector-Specific Challenges in Trade Agreements

Sector	Major Challenge	Potential Consequence
Agriculture	Competition from subsidized imports	Farmer income pressure
Manufacturing	Low-cost imports and productivity gaps	Industrial slowdown
MSMEs	Limited access to trade information	Reduced export participation



Pharmaceuticals	Regulatory and certification barriers	Delayed market access
Textiles	Compliance with sustainability standards	Increased production costs
Services	Visa restrictions and mobility barriers	Limited market expansion

Table- 12 - Internal and External Challenges Affecting Trade Agreements

Internal Challenges	External Challenges
Infrastructure deficiencies	Global economic uncertainty
High logistics costs	Geopolitical tensions
Regulatory complexity	Protectionist trade measures
Limited exporter awareness	Non-tariff barriers
Technological limitations	Supply-chain disruptions
Skill gaps in industry	Changing global trade rules

A balanced approach that protects sensitive sectors while promoting international integration remains essential for ensuring that trade agreements contribute effectively to sustainable economic development.

Policy Suggestions on Economic Diplomacy and Trade Agreements

The growing intensity of geopolitical tensions has significantly reshaped the landscape of international trade, creating both opportunities and challenges for India's trade diplomacy. Heightened strategic competition among major powers, regional conflicts, trade disputes, and the increasing use of economic measures for geopolitical purposes have compelled India to recalibrate its external economic strategy while preserving its long-standing commitment to strategic autonomy. One of the principal challenges arises from the trend toward economic decoupling, whereby countries seek to reduce their dependence on specific trading partners in critical sectors such as semiconductors, telecommunications, pharmaceuticals, critical minerals, and advanced technologies. While this trend offers India opportunities to attract investment and emerge as an alternative manufacturing and supply-chain destination, it also creates uncertainty regarding export markets, investment flows, and technology partnerships. Geopolitical tensions have further contributed to the fragmentation of global supply chains, leading multinational firms to diversify production networks through strategies such as "China Plus One" and regionalization. Although these developments provide India with opportunities to strengthen its role in global value chains, they simultaneously require substantial improvements in infrastructure, logistics, regulatory efficiency, and industrial competitiveness to fully capture these benefits. Another significant concern is the increasing use of economic coercion, including trade restrictions, export controls, sanctions, investment screening, and technology-related barriers, which can disrupt international commerce and constrain the policy choices of trading nations. Such measures have heightened the importance of resilient supply chains, diversified trade partnerships, and strategic economic cooperation in India's foreign economic policy. Consequently, India's trade diplomacy has increasingly focused on expanding bilateral and regional trade agreements, promoting trusted economic partnerships, strengthening domestic manufacturing capabilities, and enhancing economic resilience while maintaining constructive engagement with multiple geopolitical blocs.

The underperformance of several of India's trade agreements can be attributed to a combination of structural design deficiencies, domestic competitiveness constraints, implementation challenges, and the relatively low utilization of negotiated trade preferences. One major limitation lies in the design of certain agreements, where

inadequate attention has been given to sector-specific sensitivities, asymmetric market access conditions, and the evolving nature of global value chains. In some instances, tariff concessions have not been accompanied by effective provisions addressing non-tariff barriers, regulatory harmonization, or trade facilitation, thereby limiting the practical benefits available to exporters. Domestic competitiveness also remains a significant concern, as many Indian industries continue to face high production costs, inadequate infrastructure, logistical inefficiencies, limited technological capability, skill shortages, and restricted access to affordable finance. These factors reduce the ability of firms, particularly micro, small, and medium enterprises (MSMEs), to compete effectively in international markets despite preferential market access. Furthermore, implementation challenges have weakened the overall impact of trade agreements. Delays in customs modernization, inconsistent regulatory practices, administrative bottlenecks, and insufficient coordination among government agencies have increased transaction costs and reduced the efficiency of cross-border trade. Many agreements have also lacked robust monitoring mechanisms and periodic review processes capable of addressing emerging trade concerns and adapting to changing economic conditions. Another important factor is the low utilization rate of preferential tariff schemes by Indian exporters. Empirical studies indicate that many firms, especially MSMEs, either remain unaware of the benefits available under free trade agreements or encounter difficulties in complying with complex rules of origin, documentation requirements, product certification procedures, and technical standards imposed by partner countries. As a result, exporters often continue to trade under the Most Favoured Nation (MFN) tariff regime instead of claiming preferential treatment. These interconnected constraints demonstrate that the effectiveness of trade agreements depends not only on negotiated tariff reductions but also on the strength of domestic productive capacity, institutional efficiency, regulatory transparency, trade facilitation measures, and the ability of businesses to fully utilize the opportunities created through international trade agreements. Strengthening these complementary factors is therefore essential for enhancing the economic outcomes of India's future trade policy initiatives.

To maximize the benefits of economic diplomacy and trade agreements, India must adopt a comprehensive and forward-looking policy framework that integrates domestic economic reforms with international economic engagement. A balanced and flexible diplomatic approach that combines economic openness with strategic risk management will be essential for safeguarding India's long-term trade interests, preserving policy autonomy, and reinforcing its position as a reliable and influential economic partner in an increasingly fragmented global trading system.

Table- 13 - Key Policy Recommendations for Strengthening Economic Diplomacy

Policy Area	Recommended Action	Expected Outcome
Industrial Competitiveness	Promote innovation, R&D, and technology adoption	Increased export competitiveness
MSME Support	Simplify export procedures and FTA awareness programs	Greater participation in global trade
Infrastructure Development	Improve ports, logistics, and transport networks	Reduced trade costs
Trade Negotiations	Sector-specific and balanced agreements	Sustainable trade growth
Export Diversification	Promote high-value and technology-intensive exports	Reduced dependence on traditional sectors
Investment Promotion	Attract quality FDI and technology partnerships	Industrial modernization



Digital Trade	Develop frameworks for e-commerce and digital services	Expansion of digital exports
Skill Development	Strengthen workforce capabilities	Improved productivity

Table- 14 - Policy Measures for Addressing Trade Agreement Challenges

Challenge	Policy Response	Expected Benefit
Trade Deficits	Promote export diversification and value addition	Improved trade balance
Non-Tariff Barriers	Strengthen quality standards and certification systems	Enhanced market access
Low FTA Utilization	Exporter education and awareness programs	Greater utilization of agreements
Import Competition	Productivity enhancement and industrial upgrading	Stronger domestic industries
Infrastructure Gaps	Investment in logistics and connectivity	Increased competitiveness
Regulatory Complexity	Simplification of trade procedures	Faster trade transactions
Supply-Chain Risks	Diversification of sourcing networks	Greater economic resilience

Table- 15 - Strategic Priorities for Future Economic Diplomacy

Strategic Priority	Focus Area	Long-Term Impact
Supply-Chain Resilience	Critical minerals and manufacturing networks	Economic security
Technology Partnerships	AI, semiconductors, and digital technologies	Innovation-led growth
Green Diplomacy	Renewable energy and sustainable trade	Environmental sustainability
Regional Integration	Indo-Pacific and Global South engagement	Enhanced geopolitical influence
Global Value Chains	Manufacturing and services integration	Export expansion
Multilateral Leadership	WTO and global economic governance	Greater international influence

By combining domestic competitiveness with strategic international engagement, India can ensure that economic diplomacy and trade agreements contribute effectively to sustainable economic growth, employment generation, technological advancement, and long-term national development.

CONCLUSION

The growing intensity of geopolitical tensions has significantly reshaped the landscape of international trade, creating both opportunities and challenges for India's trade diplomacy. Heightened strategic competition among major powers, regional conflicts, trade disputes, and the increasing use of economic measures for geopolitical purposes have compelled India to recalibrate its external economic strategy while preserving its long-standing commitment to strategic autonomy. One of the principal challenges arises from the trend toward economic decoupling, whereby countries seek to reduce their dependence on specific trading partners in critical sectors such as semiconductors, telecommunications, pharmaceuticals, critical minerals, and advanced technologies. While this trend offers India opportunities to attract investment and emerge as an alternative manufacturing and supply-chain destination, it also creates uncertainty regarding export markets, investment flows, and technology partnerships. Geopolitical tensions have further contributed to the fragmentation of global supply chains, leading multinational firms to diversify production networks through strategies such as "China Plus One" and regionalization. Although these developments provide India with opportunities to strengthen its role in global value chains, they simultaneously require substantial improvements in infrastructure, logistics, regulatory efficiency, and industrial competitiveness to fully capture these benefits. Another significant concern is the increasing use of economic coercion, including trade restrictions, export controls, sanctions, investment screening, and technology-related barriers, which can disrupt international commerce and constrain the policy choices of trading nations. Such measures have heightened the importance of resilient supply chains, diversified trade partnerships, and strategic economic cooperation in India's foreign economic policy. Consequently, India's trade diplomacy has increasingly focused on expanding bilateral and regional trade agreements, promoting trusted economic partnerships, strengthening domestic manufacturing capabilities, and enhancing economic resilience while maintaining constructive engagement with multiple geopolitical blocs. A balanced and flexible diplomatic approach that combines economic openness with strategic risk management will be essential for safeguarding India's long-term trade interests, preserving policy autonomy, and reinforcing its position as a reliable and influential economic partner in an increasingly fragmented global trading system.

Economic diplomacy has become one of the most important dimensions of India's foreign policy and economic strategy. Through trade agreements and strategic partnerships, India seeks to strengthen exports, attract investment, improve technological cooperation, and enhance geopolitical influence. Recent agreements with countries such as the UAE and Australia demonstrate India's increasing emphasis on trade-led growth and global economic integration. Economic diplomacy has created opportunities for export diversification, employment generation, and supply-chain integration.

At the same time, challenges such as trade deficits, non-tariff barriers, geopolitical uncertainty, and limited utilization of trade agreements continue to affect outcomes. India must therefore strengthen domestic competitiveness, logistics infrastructure, industrial productivity, and institutional efficiency to maximize the benefits of economic diplomacy. The success of India's trade agreements ultimately depends on strengthening domestic manufacturing capability, logistics efficiency, technological advancement, and institutional coordination. A balanced and strategically designed trade policy can help India emerge as a stronger participant in the evolving global economic order.

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