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IMPACT OF WIDENING TRADE DEFICIT ON THE INDIAN ECONOMY

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India's merchandise trade deficit, which stood at $240 billion in FY24, offers nuanced insights into its economic trajectory. Although merchandise trade balance improved by 9.3% over FY23, corresponding export de-growth was $14 billion. A deficit driven by capital goods and intermediate products—such as electronics ($52 billion) and machinery—signals robust industrialization and infrastructure expansion. However, a high share of oil imports (around 31% of total imports) reflects energy dependency, exposing the economy to global price shocks.

If the deficit is financed by stable FDI and FII inflows (Net $71 billion in FY24), it indicates investor confidence. India's trade dynamics, therefore, require a strategic pivot toward high-value exports and energy diversification.

Also, manufacturing's share of India's GDP remains stagnant at ~17%, compared to China's 28%. Reducing the trade deficit, which heavily relies on imports of electronics, machinery, and chemicals, hinges on enhancing domestic manufacturing.

To boost exports, India must enhance domestic manufacturing through PLI schemes and strengthen MSME participation in global markets. Reducing logistics costs via the PM GatiShakti Plan, National Logistics Policy, and digital platforms like ULIP is essential. Deepening integration into Global Value Chains (GVCs), negotiating strategic Free Trade Agreements (FTAs) for better market access, and attracting foreign investments in key sectors like electronics, automobiles, and semiconductors will further drive export growth. The PLI program has already attracted $47 billion in investments, projecting $500 billion in incremental manufacturing output by 2030.

However, success depends on addressing critical gaps: supply chain sophistication, R&D intensity (currently at 0.7% of GDP vs. China's 2.4%), and labor productivity.
India's path to narrowing its trade deficit lies in creating globally competitive manufacturing hubs, thereby boosting exports and reducing import dependence. ”