

3. India's Trade Deficit Narrows – Economy

India's trade deficit shrank by over 54% due to a sharp rise in merchandise exports, supported by government schemes like PLI, and a strong services sector surplus. This positive trend strengthens the rupee and forex reserves, but challenges from global trade uncertainties persist.

India's Trade Deficit Narrows Significantly

According to the Ministry of Commerce and Industry, India's trade deficit contracted by more than 54% in August 2025. The deficit fell to \$9.9 billion, a sharp decline from \$21.7 billion in August 2024, primarily driven by a robust increase in merchandise exports.

Trade Deficit

A trade deficit occurs when the total value of a country's imports of goods and services is greater than the total value of its exports. Economically, a persistent trade deficit tends to put downward pressure on the value of the domestic currency.

Drivers of the Positive Trade Performance

1. Strong Policy Support for Exports – Government schemes like the Production-Linked Incentive (PLI) and the Remission of Duties and Taxes on Exported Products (RoDTEP) have significantly boosted the competitiveness of Indian goods. Improved logistics infrastructure under the PM GatiShakti National Master Plan has reduced turnaround times and costs for exporters. Indian exporters have demonstrated remarkable resilience, managing to grow even after facing adverse conditions like the 25–50% tariffs imposed by the U.S. in August.

2. Robust Performance in the Services Sector – India's services sector, particularly IT, business process management, fintech, and professional services, continues to see strong global demand. The net services surplus of nearly \$16.7 billion provided a substantial cushion, helping to offset the merchandise trade deficit and acting as a key stabilizer for India's external sector.

3. Moderation in Imports – A fall in global crude oil and other commodity prices has helped reduce the country's overall import bill. Government initiatives to promote domestic manufacturing in sectors like electronics, defence, and renewable energy equipment are gradually reducing the country's dependence on imports.

Implications for the Indian Economy

Improved External Sector Stability – A halved trade deficit strengthens India's current account position, easing concerns about excessive foreign exchange outflows and improving macroeconomic stability.

Boost to Forex Reserves and Rupee Stability – The lower trade imbalance reduces the demand for foreign currency, which in turn reduces pressure on the rupee, helps stabilize the currency, supports foreign exchange reserves, and bolsters investor confidence.

Enhanced Global Competitiveness – The ability to increase exports despite global economic headwinds and protectionist tariffs reflects the rising competitiveness of both Indian goods and services on the world stage.

Contribution to Economic Growth – Strong export momentum provides a direct fillip to GDP growth, encourages employment generation, and fuels industrial expansion.

Challenges Ahead

Global Trade Uncertainties – The risk of sluggish global growth, ongoing supply chain disruptions, and rising protectionist measures could negatively impact future export demand.

High Dependence on a Few Markets – A large share of India's exports is concentrated in the U.S. and EU markets, making the country vulnerable to geopolitical and policy risks in those regions.

Rising Services Imports – While services exports are a major strength, a steady increase in services imports could gradually erode the net surplus that currently supports the trade balance.

Need for Technology and Value Addition – A significant portion of Indian exports remains concentrated in low to medium value-added sectors, which could limit long-term competitiveness and profitability.

The Way Ahead – A Strategic Approach

Diversify Export Markets – India must deepen its engagement with emerging regions such as Africa,

Latin America, and Southeast Asia through Bilateral Trade Agreements and active participation in multilateral groupings.

Promote High-Value Exports – The focus should shift towards encouraging exports in high-growth, high-value sectors like electronics, green technologies, advanced pharmaceuticals, and defence manufacturing.

Strengthen Services Exports – To maintain its leadership position, India needs to continue investing in skilling, digital infrastructure, and regulatory reforms that support the IT and professional services sectors.

Manage Imports Strategically – It is crucial to promote domestic capacity-building in critical sectors such as semiconductors, rare earths, and clean energy components to reduce strategic vulnerabilities.

Leverage Global Supply Chain Shifts – India should proactively position itself as a reliable and attractive manufacturing hub for multinational corporations looking to diversify their supply chains under "China+1" strategies.

Source – <https://www.thehindu.com/business/Economy/surging-merchandise-exports-falling-imports-cut-indias-august-trade-deficit-by-half/article70052904.ece>