Our Views

Competing on Equal Terms: How Trade Agreements Can Reshape India's Growth Model

India's recent trade agreements mark more than incremental policy changes. They signal a strategic repositioning. India is no longer competing only on cost or capability; it is competing on market access. For a country that runs a structural current account deficit driven by energy and electronics imports, export competitiveness becomes central to macro stability. The real challenge, therefore, is not reducing imports, but funding them sustainably. Exports remain India's most dependable answer.

Global trade today is intensely competitive. Countries that combine lower production costs with preferential tariff access capture supply chains quickly. Even small tariff differences can gradually shift sourcing decisions. If a competing manufacturing hub offers similar quality at lower cost and enjoys better tariff access, global buyers will move. India's industrial and services capabilities are globally competitive, what increasingly determines success is whether exporters compete on equal terms.

India's approach to trade partnerships is undergoing a subtle but important evolution. The country is no longer negotiating trade agreements from a position of vulnerability, but from a position of capability. Recent engagements with major economic blocs including the United States, the UK and the European Union, reflect this shift. Preferential access to large consumption markets such as Europe strengthens export visibility and industrial scale.

Improved tariff alignment with the United States enhances competitiveness in sectors directly linked to global manufacturing realignment. Collectively, these agreements are gradually repositioning India from being primarily a consumption-led economy to becoming an increasingly important participant in global production networks.

Securing Competitive Access

The India-EU trade agreement brings India into deeper economic engagement with a bloc that includes major industrial powerhouses such as Germany, France, Italy, Spain and the Netherlands and significantly expands India's global trade integration by providing preferential market access for most exports. Given that India and the EU together account for roughly 25% of global GDP and a third of world trade flows, the pact marks a structural milestone in India's journey toward export competitiveness and deeper global capital alignment.

The recent India-US trade understanding further strengthens this trajectory. Reducing reciprocal tariffs improves competitiveness in sectors such as textiles, leather and engineering goods, areas where India competes directly with lower-cost manufacturing hubs.

Improved tariff parity can drive tangible outcomes:

- Higher export volumes in labour-intensive sectors
- Greater participation in US friend-shoring supply chains
- Increased manufacturing scale and employment

India's tariff position is now broadly comparable to other major exporting economies supplying the US. In labour-intensive sectors such as textiles and leather, where even marginal cost differences matter, the earlier tariff disadvantage has narrowed significantly. In global trade, sourcing decisions are often made on narrow margins. India is now firmly on equal footing, competing on capability rather than tariff differential.

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Markets Prefer Visibility

Recent tariff clarity coincided with renewed FII inflows of approximately USD 1.7 billion, highlighting how trade visibility influences capital allocation decisions. Stronger export momentum is increasingly shaping earnings quality and market valuations. Export-oriented businesses typically demonstrate better earnings visibility and natural currency support during periods of rupee weakness. Export-heavy sectors such as IT and pharmaceuticals reflect this trend, with Nifty IT trading at 24-25x P/E and Nifty Pharma at c.30x, compared with discounted valuations in commodity cyclicals.

Few sectors illustrate India's export transformation more clearly than electronics manufacturing. Not too long ago, India was largely a consumption market for global electronics brands. Today, it is emerging as a major production hub. Electronics exports have climbed to USD 48.2 billion in 2025, moving from seventh to third among India's export categories. Yet India's export-to-GDP ratio remains c.21%, well below several Asian manufacturing economies - highlighting the scale of opportunity ahead.

Over the past year, FPI flows into Indian equities have turned volatile. After strong inflows through 2023-24, India saw net FPI outflows of nearly USD 17-18 billion in 2025 as global liquidity tightened and US yields moved higher. Even in early 2026, flows have remained uneven, with brief inflow spurts followed by profit-taking.

For an economy managing a current account deficit driven by oil and electronics imports, strong export growth reduces dependence on unpredictable capital flows. It strengthens foreign exchange reserves, supports currency stability and enhances macro credibility. For investors, that stability matters. This is one reason export-oriented sectors such as IT services and pharmaceuticals have historically commanded premium valuations relative to purely domestic cyclicals.

A Clear Strategic Shift

If India intends to sustain high growth while managing external stability, trade integration will be important. India is gradually moving from protection-led caution to competitiveness-led integration. At a time when global supply chains are being redefined, this shift is timely.

Trade agreements do three important things: First, they improve export competitiveness and protect market share. Second, they strengthen foreign exchange management by expanding stable earnings. Third, they enhance India's attractiveness as a global manufacturing and services partner.

These agreements reflect India's aspiration to lead, to compete, and to be counted among the world's most open, dynamic, and forward-looking economies. The message is clear: the world is opening its markets to India. It's time for us to step forward, and lead from the front.

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