



EDITORIAL

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The \$500 Billion Pivot: Re-evaluating India's Trade Deficit Under the Shadow of 'America First'



Recent visit of Marco Rubio, US Secretary of States, successfully inked a deal of 500 billion dollars of goods to be sold to India in the next five years. This will help the US to ease trade tension and to reduce a long pending trade deficit of the US with India. If the deal is exactly what Mr. Rubio told the Indian press then, I must say it was well on the track of Mr. Trump's 'America First' mission. What is there for India?

India trades with 190 plus countries. Out of these, India is having a surplus trade with around 151 countries. But, still the trade deficit of India is increasing year on year. India's merchandise trade deficit for the last full fiscal year (FY26, April 2025–March 2026) stood at \$333.19 billion. This was a widening from the \$283.50 billion deficit recorded in the previous year (FY25), driven by imports totalling \$774.98 billion against exports of \$441.78 billion.

India has a significant trade with only six countries i.e. US, Russia, UAE, China, Saudi Arabia and Switzerland. Out of these six countries, India was having surplus trade with the US only. India has a trade deficit with the rest of the five countries. The figures of real concern are for China. With the recent agreement, India will no longer be holding the status of surplus trader with the US.

India's trade surplus with the US increased from \$20 billion in 2015 to a record high of \$58.2 billion in 2025. As per Mr. Rubio, India will purchase goods worth \$500 billion from the US in the next five years. Averaging it to \$100 billion per year should turn the table around. India is projected to run a deficit of around \$70 billion with the US with this deal. (Average trade surplus for the last decade with the US was \$29.85 billion).

Trade deficit of India with China is increasing year on year. These figures were well in control from 2015-16 to 2020-21 but accelerated significantly in the last five years.

In all forms of trades, India largely relies on the service sector to meet up the gap from merchandise deficit. But with China, India has a very limited share of service-related trade. The figures are in the few hundred million only. This is nowhere close to meeting the trade deficit.

In fiscal year 2024-25, export to China was in the tune of \$14 billion and import was around \$113.5 billion. The trade deficit was 8 to 9-fold.

Having reduced trade surplus with the US and increasing trade deficit with China may have an overall negative impact on the already trade deficit Indian economy. In such a scenario, there does not seem to be any sign of strengthening the Indian rupee.

India is having a trade deficit with Russia which is increasing year on year over a decade. It increased from \$2billion in 2014 to \$59 billion in 2024-25.

With the UAE, the trade deficit of \$4.5 went up to \$26 billion in the last ten years. With Saudi Arabia we had a constant deficit of trade for the last ten years. From Switzerland, India imports gold worth \$20 billion annually. Export to Switzerland is barely \$1.5 to \$2 billion.

India is dependent on Russia, UAE and Saudi Arabia for crude oil. Russia also supplies high energy coal, fertilizers and air defence systems along with defence equipment components.

Crude oil and the derived products like gasoline, diesel and lubricants are essential commodities in a modern lifestyle. The other byproducts of crude oil have a deep indirect impact on the daily business of a modern economy. All the plastic and polymer products are derivatives of this crude oil only. Therefore, the trade with Russia, UAE and Saudi Arabia is something that cannot be curtailed at a go.

Gold is not an essential commodity but gold also has a tag of non-depreciating precious metal. This attracts Indians to gold. Most of the Indian households treat gold as a safe investment to hedge in difficult times. Collective intelligence is a rare attribute in human beings. Even if we dream of the best possible scenario, if 1.40

billion people follow the appeal of not buying gold for the next one year, India is likely to reduce the deficit by \$10 billion only. The higher middle class, the rich, the richest and the super richest of the country are very less likely to follow the constraints in the national interest.

At the end, what will be the total contribution to compensate for the deficit? Only 3% of the present deficit? It will further drop to 2.5% considering the recent trade deal with the US!

India doesn't buy crude oil from China. Neither do we buy gold from China. Despite not having any trade of inevitable commodities, the trade deficit of India with China tops the list.

For the last few fiscal years, the trade deficit of India with China is even larger than the trade deficit with Russia, UAE and Saudi together. India's trade deficit with China is roughly one third of the total trade deficit.

With the new trade deal with the US, India's trade deficit is likely to reach \$400 billion per year. In such a scenario, India's component of deficit with China will be reduced in percentage but a 17.5% component of deficit will be burdened by the US.

What China sells to India? Electronics and Electrical components, plastic materials including household articles and toys. China supplies the overwhelming majority (often over 75%) of India's needs for items like solar cells, lithium-ion batteries, laptop components, and pharmaceutical active ingredients. India primarily exports raw materials to China (like iron ore, naphtha, and castor oil), which generate far less revenue compared to the complex manufactured goods India imports.

The only sector where India outperforms is the pharmaceutical sector and there too, we have a trade deficit with China. India has a massive surplus trade in the pharmaceutical domain driven by its status as the world's largest provider of generic medicines by volume. This industry records over \$30 billion in annual exports, reaching 191 countries, with about half of these exports directed to highly regulated markets like the US and Europe. India imports some APIs from China.

In FY 2024-25, the foreign institutional investors withdrew \$1326.75 from the Indian stock market. Same trend continued for five months of the current financial year. Is it out of the declining trust of FIIs in Indian manufacturing capacities?

Manufacturing capacity alone will not compensate for the deficit. India requires manufacturing innovative products to attract one of the largest young populations of the world residing right there in our own country. India opened doors for global trades around three decades ago. When we allow the world to step into our market, where do we stand in terms of quality to compete with global brands and attract our own people to a desi product?

In such a scenario, what an individual Indian should avoid in his daily lifestyle, so that the nation would reduce its trade deficit? Natural resources cannot be reproduced elsewhere. They are a geographical gift to a nation. Trade deficit of India hints at poor contribution from the academic institutions, especially of higher education and research institutes. Low national productivity and lack of focused research led to this situation. Our research problems are neither driven by the current problems of our society nor with the future utility of the society. We do not have a single indigenous software or electronics product which can trigger the temptation of users!

With increasing demand for solar power and EVs, the import of lithium-ion batteries and other related components is likely to deepen the existing trade deficit with China. How can we control the falling value of the Indian rupee against the dollar?