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India and the World Economy: Policy Options at a Time of Geopolitical Drama, Technological Shifts, and Rising Protectionism

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Brussels, 3 April 2025 - India currently finds itself at a critical juncture choosing what trade policy to pursue for its economic development. Protectionism, economic nationalism, and skepticism toward globalisation are weakening trade relations. Technological changes and shifts in trade composition are adding new layers of complexity to economic integration. Traditional trade policy choices are no longer able to respond to new economic and political realities. India may need to adopt new approaches to deliver better economic outcomes.

This [Policy Brief](#) uses India's external trade strategy as a starting point and presents three strategic options for India moving forward, each reflecting a varying degree of trade openness. Similar to categories from the world of soft drinks, first, the Trade Zero approach allows India to maintain its defensive stance on trade, focusing solely on domestic growth and demand by utilising trade as a means to manage production surpluses. Second, the Diet Trade approach pushes India to enhance trade relations with existing partners by prioritising high-value-added goods and services while utilising diplomacy to strengthen economic ties. Third, the Trade Regular approach encourages India to pursue a more ambitious trade strategy, aiming to establish itself as a central hub connecting major economic regions. This would involve upgrading existing trade agreements, signing new deals, and implementing significant domestic reforms.

Fredrik Erixon, co-author of the ECIPE Policy Brief notes ***“India's policy choice may be even more limited, given the pre-dominance of trade philosophies and practices that require reciprocal trade, sometimes artificially focused on a balance in trade volumes within sectors. Thus, the choices have consequences for the balance between the internal and the external economic sector in India, and which of them that carry most***

impact on political decision-making. Still, all three models offer Indian policymakers a framework for thinking and addressing different challenges in India's trade policy."

India's trade performance provides the actual context of the realities of India's trade policy. Between 1996 and 2023, there have been some notable features in India's trade performance: its trade sector is small (international trade as a share of the GDP); it has a large services export sector compared to the export of goods; exports of high-value added goods and services has increased substantially; there is a consistently large share of big economies such as the United States and the European Union in India's exports. All these features point to India's position in global trade as a relatively high-value added economy as well as its ability to adapt to newer forms of trade and engage with the global economy.

Based on India's current trade performance, the policy brief notes that India is already on the way to become a "connector country". In a way, the real economy has already made the choice of trade model, and it has opted for "Trade Regular". However, sustaining economic growth will require a structural shift toward deeper integration models and a policy that also gives priority to sectors with strong competitive advantages.

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