

**Speaking Note for PSM**  
**2nd KI-FEIF: Korea- India Future Economy and Industry Forum**  
*Session: Changing Trade and FDI Policies in FY 2026*  
*March 20, 2025*

**1. Shifts in Trade, FDI and Investment Policies**

- 1.1.** India's key export destinations have evolved, with North America, the EU, and ASEAN emerging as major markets. The U.S. remained the largest (17.9%), followed by the UAE (8.23%), Netherlands (5.16%), and China (3.85%).
- 1.2.** Over the past decade, India's exports and foreign direct investment (FDI) have surged. Total exports reached USD 778.21 billion in 2023-24, a 67% increase from 2013-14 (USD 466.22 billion). Merchandise exports grew to USD 437.10 billion, led by electronics, pharmaceuticals, engineering goods, and textiles, while service exports reached USD 341.11 billion, with IT, financial services, and BPO at the forefront.
- 1.3.** The **Foreign Trade Policy (FTP) 2023** introduced reforms to reduce compliance burdens, boost e-commerce exports, and promote high-tech industries. The 2025-26 budget increased allocations under the PLI scheme, with electronics and IT hardware rising from ₹5,777 crore to ₹9,000 crore and automobiles from ₹346.87 crore to ₹2,818.85 crore. The textile sector saw a significant boost from ₹45 crore to ₹1,148 crore.
- 1.4.** Sectoral growth:
- Mobile phone exports rose from USD 0.2 billion (2014-15) to USD 15.6 billion (2023-24).
  - Pharma exports reached USD 27.85 billion, aided by PLI incentives.
  - Investments in solar modules, battery storage, and green hydrogen are driving sustainability efforts.
- 1.5.** However, **tariff fluctuations, high logistics costs, and non-tariff barriers** remain challenges. **India's exit from the Regional Comprehensive Economic Partnership (RCEP)** limits ASEAN market access, though negotiations with the EU, UK, and Gulf nations offer new trade opportunities.

- 1.6. The digital economy continues to grow, with rising FDI in IT services, fintech, and digital platforms, capitalising on India's skilled workforce. However, regulatory uncertainties, infrastructure gaps, and rigid labour laws pose challenges. Investor confidence is also impacted by concerns over taxation policies, retrospective amendments, and contract enforcement.
- 1.7. **Shri Piyush Goyal has announced that India aims to cut logistics costs to 5-6% of GDP which will help in attracting investments. Yet, high industrial electricity prices, compared to China, remain a hurdle for manufacturing competitiveness.**

## 2. India-Korea Trade and Investment Relationship

- 2.1. **India-Korea bilateral trade reached USD 27.52 billion in 2023-24**, with Korea as India's 13th largest FDI investor, contributing USD 6.35 billion (April 2000–September 2024), primarily in metallurgy, automobiles, and electronics. **Korea accounts for 1.46% of Indian exports, while India makes up 3.00% of Korea's exports.** The aim is to **expand CEPA** and raise trade to USD 50 billion by 2030, up from USD 23.7 billion in 2021 (a 40% increase from 2020).
- 2.2. **Before CEPA (2009), bilateral trade stood at USD 12 billion (2008), rising to USD 20 billion by 2011 post-implementation.** However, India's exports did not grow proportionally, leading to a 160% trade deficit increase (2007-09 to 2020-22). Korean FDI in India surged from USD 2.4 billion (pre-2009) to USD 6.35 billion (2024), strengthening the presence of Samsung, Hyundai, and POSCO. Despite this, Indian FDI in Korea remains limited, highlighting an asymmetric investment relationship.

## 3. Policy Roadmap for Trade & Investment

- 3.1. A key highlight of the Union Budget 2025-26 is the **establishment of the High-Level Commission for Deregulation**, aimed at eliminating redundant regulations and streamlining compliance frameworks. However, **this must translate into concrete actions** rather than remain a mere committee.

- 3.2. Competitive-cooperative federalism will drive state-level policy improvements,** fostering a competitive yet collaborative approach. The new “Investment-Friendly Index” announced in the budget is a good example of the same.
- 3.3. Expanding the PLI scheme to emerging sectors** such as artificial intelligence, chip fabrication, and electric mobility is further positioning India as a global manufacturing hub.
- 3.4.** Infrastructure and trade facilitation remain central to India’s economic vision. The **National Logistics Policy (NLP) and PM GatiShakti** initiative aim to reduce logistics costs from 13-14% of GDP to single digits, improving export competitiveness.
- 3.5.** For MSMEs, Bharat Mart in Dubai is being established to provide them with cost-effective access to Gulf, African, and CIS markets.

#### **4. Opportunities & Risks in FY 2025-26**

- 4.1.** The return of Donald Trump to the White House in 2025 has heightened uncertainty in global trade and investment. His **America First stance** and protectionist policies are expected to affect India in multiple ways.
- 4.2. Potential Tariff Barriers and Trade Disruptions**
- Unlike the Biden administration’s multilateral trade approach, Trump’s policies indicate a more **unilateral, aggressive stance with higher tariffs and stricter import regulations.**
  - Indian exports to the U.S. (17.9% of total exports in 2023-24) could face increased scrutiny, particularly in **pharmaceuticals, IT services, and engineering goods.**
  - Renewed **U.S. pressure for greater market access for American goods** may complicate India’s trade negotiations with Washington.
- 4.3.** The **shift towards ‘friend-shoring’ and reshoring** in the U.S. could reduce India’s attractiveness as a manufacturing destination, with **supply chains being reoriented towards Mexico and Vietnam. Potential visa restrictions for Indian IT professionals** and changes in FDI policies could impact bilateral investment flows.

- 4.4.** The China-plus-one strategy, which had benefited India, may lose traction if U.S. firms are incentivised to relocate production domestically.
- 4.5. Indian IT and tech firms operating in the U.S. may face stricter visa regulations,** affecting outsourcing and skilled labour mobility. However, **if Trump maintains a tough stance on China, India could attract more U.S. investment and trade** as an alternative manufacturing base.
- 4.6.** Given the evolving global trade environment, **India's trade and investment policies in FY 2025-26 must remain agile and responsive:**
- Investment facilitation reforms will ensure more stable FDI inflows.
  - State-level regulatory simplifications will enhance India's attractiveness to global investors.
  - India's multilateral engagement through G20, WTO, and BRICS should be leveraged to advocate for fairer trade rules and mitigate the impact of protectionist policies.

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