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Understanding The Persistent Trade Deficit In India Through Structural Weaknesses In Manufacturing Exports

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Abstract:
This paper analyses the continuing trade deficit mainly attributing it to structural problems in the manufacturing sector. India has faced a steadily increasing deficit in merchandise trade since opening up its economy in 1991. The import dependence of India for oil, electronic goods and high-tech products has mainly driven the widening of the trade deficit. The services exports and worker remittances have helped to some extent to balance the deficit but the imbalance in goods trade is an indication of the non-competitiveness of manufacturing sector in India. The study found that several structural issues have been obstructing export growth. India has a very limited product range for exports mainly textiles, gems and jewellery and pharmaceuticals which are the major items exported; thus, it remains exposed to shocks in global demand. The dependence on low-technology and low value-added products instead of high-tech products has hampered the process of integrating into global value chains while it is difficult for local firms to reach premium markets because they often fail to meet quality standard requirements. MSMEs, which are the major contributors to manufacturing exports continually struggle with issues of finance, infrastructure and compliance which impede their ability to grow and innovate. The impact of policy measures such as setting up Special Economic Zones, Production Linked Incentive schemes and the Make in India initiative on the exports sector has been very limited although some positive results at the sector level have been seen. Trade agreements have definitely helped companies gain access to new markets but at the same time most of these agreements have resulted in higher trade deficits simply because of lower competitiveness. On top of that, the problems of infrastructure, regulatory complexity and poor governance further add to the difficulties for export growth. The paper argues that trade deficit is not only a matter of cycles but is mainly because of the structural constraints of manufacturing. Solving these problems will require an integrated industrial policy focused on technology and innovation, infrastructure upgrade and governance reforms that particularly facilitate MSME sector.

Key Words: *Global Value Chains, India, Liberalisation, Trade Deficit, Trade Policy*

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I. Introduction

Trade deficit is a situation when a country continuously imports more in terms of value than it exports. This gap between import and export values is a sign of structural and cyclical problems in an economy. For example, in the case of India this deficit has largely been due to the reliance on imports of crude oil, electronics and gold while the exports of goods have not been growing that fast (Singh et al., 2022). Although services exports especially IT and business outsourcing have somewhat helped the situation the trade imbalance in goods remains a major issue. Trade deficit is not just a matter of numbers; it indicates that there are serious problems with industrial competitiveness, productivity and ability of domestic economy to supply the global market with products of the right quality and in the required quantity. Manufacturing exports have been at the core of development plan in India particularly since the opening of the economy in the 1990s when joining the world market was the main policy goal (Prabhakar, 2024). The industry was seen as a source of new jobs, a way of adding variety to the export basket and thus a reduction of dependence on primary commodities. Textiles, pharmaceuticals and engineering goods have been among the key contributors for a long time though recent years have seen the emergence of newer sectors such as automobiles, chemicals and renewable energy technologies. Manufacturing exports have not grown at the pace necessary to make India a global manufacturing hub despite policy measures such as Make in India and the Production Linked Incentive schemes (Morris and Shukla, 2022). The share of manufacturing in total exports is still significantly lower than in the case of the East Asian economies, and India's participation in global value chains has been minimal which makes it susceptible to external shocks and competitive pressures. Therefore, understanding the structural weaknesses of manufacturing exports is a key to grasping the continued trade deficit of India. These weaknesses include narrow product base, limited technological adoption, poor infrastructure and the presence of regulatory difficulties that limit the ability of firms to scale up (Amrutrao, 2025). It is only when manufacturing exports are able to diversify or climb the value chain that a country can refrain from importing high-value goods and technology which will narrow the deficit. Furthermore, the failure to be on par with China, Vietnam and South Korea in international markets illustrates the problem of industrial competitiveness. Bringing the trade deficit to these structural problems reiterates that the deficit is not merely a mirror of foreign demand conditions but is profoundly connected to the production capabilities, innovation systems and policies in India.

II. Persistent Trade Deficit In India Since Liberalization

Since the liberalization of the Indian economy in 1991, the trade balance has witnessed major changes that have mirrored the pros and cons of the country's opening up to the world market. At the very start of liberalization, India recorded increase in imports as the combination of industrial reforms, tariff cuts and increased foreign capital openness that stimulated the demand for machinery, technology and raw materials (Arun and Dhar, 2024). The export sector also expanded but not at the same rate which led to a growing trade deficit that has been a common feature of India's external sector. The trade deficit has however been influenced by the changes in global commodity prices especially crude oil which is India's largest import item by far (Deheri and Sahu, 2024). When oil prices were high, the deficit worsened substantially and only when they fell temporarily did the deficit ease marginally. In spite of attempts to broaden the export base and to make the domestic economy stronger, the fundamental import-export imbalance has been around, hence the difficulties involved in maintaining external stability in a liberalized economy. Also, the change in the composition of India's exports has been very significant over the past three decades. Agriculture, which used to be a major contributor has gradually lost its significance which is the result of both domestic policy priorities and the limited competitiveness of Indian agricultural products in the world market (Sharma et al., 2023). Manufacturing was the one expected to dominate with such sectors as textiles, engineering goods and pharmaceuticals taking the lead. Nevertheless, although these industries have generated export revenues, their development has been sporadic and, in many cases, limited by infrastructural bottlenecks, institutional rigidities and limited technological upgradation. On the other hand, services exports mainly those related to IT and business process outsourcing have grown enormously and have become the main source of India's foreign exchange earnings. The overall current account of India has been supported by this dependence on services but at the same time it has brought to light the inadequacy of manufacturing exports which are still very limited in scope and hence incapable of reaching the level that East Asian economies have (Goswami and Narayanan, 2023). The disparity between strong services exports and comparatively weak merchandise exports has thus become an important characteristic of trade structure in India. In fact, India's experience looks very different when it is compared with that of other emerging economies. For example, China, South Korea and more recently Vietnam have used manufacturing exports to create trade surpluses and industrial upgrading during these years. They have been able to penetrate global markets significantly through integration into global value chains focusing on high-value added production and export-oriented policies. In contrast, India has not been able to follow this path and its manufacturing industry has remained largely inward oriented and less competitive on the global stage. One more example is of the Latin American economies where structural problems in manufacturing and high reliance on commodity has resulted in trade deficits. India is thus a hybrid case which is better than many commodities dependent countries because of its service sector but weaker than the East Asian countries in terms of manufacturing.

III. Structural Weaknesses In Manufacturing Exports

The manufacturing sector in India has ongoing serious structural issues which limit their competitiveness globally and their potential to contribute significantly to the reduction of trade deficit. One of the persistent issues that have been around since the beginning is the product concentration and the absence of diversification (Debnath et al., 2025). A very large proportion of exports from India are mainly in a few sectors such as textiles, garments, gems and jewellery and pharmaceuticals. Even though these sectors have traditionally been major producers of foreign exchange, they have not diversified their product lines to include a wide range of high-value innovative products. This limited product range exposes India to risks associated with changes in global demand and price volatility as well as losing ground to competitors from countries that have a stronger hold on these same product categories. At the same time, the lack of diversification implies that India has not taken advantage of the opportunities that are arising in advanced manufacturing, electronics and renewable energy technologies which has led to export profile of India to continue to remain quite unchanged in comparison to the very dynamic economies of East and Southeast Asia. Another aspect that is closely linked to it is the reliance on low-value-added products rather than high-tech exports (Banerjee and Chaudhuri, 2024). A large portion of manufacturing output in India is still at the bottom of the global value chain where the profits are low and the competition is fierce. As has been the case with the textile and garment industries that mainly rely on low-cost production for their exports rather than on constantly innovating. On the other hand, the countries such as South Korea and China have been able to upgrade their value chains and are currently exporting high-tech products like semiconductors, advanced machinery and consumer electronics. The negligible involvement of India in these industries is a clear indication of the deep-rooted issues in research and development, technological innovation and industrial upgradation (Prabhakar and Aggarwal, 2024). Without a shift towards higher value exports India will be trapped in a situation where the manufacturing sector keeps running without productivity and competitiveness improvements. The demand for better quality standards and global competitiveness act as additional factors that exacerbate these weaknesses. To meet international quality, safety and environmental standards, Indian manufacturing firms are generally at a disadvantage which is limiting their entry into top markets (Aggarwal et al., 2025). Non-tariff barriers like the tough certification requirements in the European Union or the United States highlight these shortcomings that results in cargo rejections or only limited market access. Most of all, the buyers globally are on the lookout for eco-friendly and ethically sourced products which present compliance and reputational challenges for Indian exporters. The competitiveness of Indian products has also diminished by inconsistent quality assurance practices, poorly linked supply chains and a lack of focus on branding and design when compared to the countries that have built their names on trust and innovation. This discussion cannot be complete without highlighting the contribution of Micro, Small and Medium enterprises (MSMEs) as they constitute a major part of the manufacturing exports of India. MSMEs are an important source of employment and production in the economy, however, they are constrained by various limitations that reduce their competitiveness. Among the major problems availing finance has always been a big problem as most of the firms have not been able to get cheap credit for carrying out their modernization or expansion activities (Rajamani et al., 2022). Besides, inadequate and inefficient infrastructure such as erratic power supply, bad logistics and lack of connectivity is a problem in particular for small enterprises. Not only that, these enterprises lack the necessary size to be able to invest in sophisticated technologies, research or to meet the requirements of international standards and thus, they remain confined to low-value segments of the market. Their participation in global value chains is quite insignificant and they mostly encounter problems in fulfilling large orders or delivering on required quality standards. Although various government schemes have tried to help MSMEs by way of providing subsidies, incentives and training programs, the deep-rooted problems are still prevailing that stand as barriers to these enterprises being the driving force of export diversification.

IV. Policy And Institutional Challenges Shaping Manufacturing Export Competitiveness Of India

The manufacturing export performance of India has been heavily dependent on the economic policy and institutional frameworks that have evolved since the country opened its economy to global markets. Industrial as well as trade policies aimed to encourage the country to look outside for markets, attract foreign investment and integrate the economy into global trading networks. However, the policy frameworks have generally been patchy sometimes leaning towards protectionism and at other times towards liberalization. Initiatives like the Export Promotion Capital Goods scheme, Special Economic Zones and the Production Linked Incentive programs over the past years were majorly aimed at making the industrial sectors more competitive, however, their success has not been uniform (Karmakar, 2025). On one hand, industries like pharmaceuticals and automobiles that have been given significant support have been able to make good use of it. On the other hand, industries like electronics and machinery have mostly stayed at the mercy of imports for their basic inputs. The absence of a clear and consistent long-term industrial strategy has led to export growth being more of a response than a revolution with policies often addressing short-term trade deficits rather than dealing with the fundamental issues of manufacturing capacity and technological innovation. Both, tariff and non-tariff barriers have significantly influenced the export trajectory of India. To give an example, the liberalization of tariffs since the 1990s has led to the decrease in duties on a wide range of goods, thus enabling deeper integration with world trade. On the other hand, India has been using protective measures over and over again in order to shield its domestic industries from foreign competition, thus creating an unstable situation for exporters and investors. Apart from this, non-tariff barriers such as complicated customs procedures, certification requirements and the necessity to comply with international standards have weakened export competitiveness. Indian firms typically face difficulties in meeting the stringent quality and safety standards imposed by developed countries which subsequently lead to the return of shipments or limited access to markets (Takkar et al., 2025). These barriers not only make exports less efficient but also deter small firms from getting involved in foreign markets which consequently prolongs the existing weaknesses of the industry. Simultaneously, the infrastructure issues still persist as one of the major hurdles for India's export competitiveness (Goswami and Daultani, 2022). In fact, logistics costs in India are significantly higher compared to many competing economies largely due to inadequate road and rail networks, congested ports and inefficient warehousing and distribution systems. On top of that, an unstable power supply has been a major factor in the declining productivity of the industrial sector especially small and medium enterprises (SMEs). Ports are often plagued with inconveniences such as delays, use of outdated technology and limited capacity. As a result, exporters are faced with the challenge of fulfilling tight delivery schedules imposed by their global buyers. These bottlenecks lead to higher transaction costs, lower reliability and ultimately, they reduce ability of India to compete in markets where time and quality are critical aspects. Although there have been investments in infrastructure corridors and modernization projects, the progress has been slow and the gap between India and its East Asian competitors is still very wide. Regulatory and governance problems at the same time have a negative impact on these domestic structures. Usually, the regulatory framework is very difficult to understand for the exporters because of the various overlapping jurisdictions, constant policy changes and complex compliance requirements (Kawale and Valilai, 2024). Exporters have to handle many different layers of approvals, certifications and documentation which in turn increases their costs and causes delays. Governance issues like bureaucratic inefficiency, lack of transparency and inconsistent enforcement of rules not only result in the creation of business uncertainty but also are the reasons for the lack of investments in export-oriented industries. Corruption and how some people behave like they are entitled to bribes put extra pressure on the situation especially on the smaller firms that do not have the resources to manage these problems. Besides that, policy instability the situation where incentives and schemes are first introduced only to be later withdrawn or changed later reduces trust in the institutional setup. Because of such a situation, it is very challenging for firms to make strategic plans, invest in their upgrade or become a part of the global value chains.

V. Global And Domestic Demand Dynamics Influencing India's Manufacturing Export Performance

Global and domestic demand factors have definitely had a decisive impact on manufacturing exports from India and eventually on its trade deficit. One major change that has taken place over the last few decades is the rescheduling of global value chains where production is broken down into different countries and companies specialize in particular manufacturing stages. The East Asian countries especially China, South Korea and Vietnam have tightly connected themselves with these networks by making themselves essential points in supply chain of electronics, machinery and consumer goods. On the other hand, India has been hardly affected by this change. In fact, the involvement of the country has been mostly going to low-value segments such as the basic assembly or raw material supply rather than high-value stages like design, innovation and advanced manufacturing (Aggarwal et al., 2025). This super limited integration is because of the lack of good infrastructure, technology adoption and low institutional support that are structural problems which hinder Indian companies from being part of the complicated and fast-moving global trade ecosystems. Consequently, India has not been able to enjoy the benefits of bigger scale, higher efficiency and better market access that are brought about by deeper value chain participation. Further competition from East Asian economies has accentuated the vulnerabilities of India's manufacturing export sector. It is undeniable that China has a major role in global manufacturing but countries such as Vietnam and Indonesia have also become significant challengers by providing low-cost labour, simplified regulatory frameworks and put forward aggressive export-oriented policies. For instance, Vietnam has managed to draw multinational corporations in electronics and textiles, taking advantage of free trade agreements and reliable logistics to broaden its export portfolio. On the other hand, India has faced difficulties in keeping up with the speed of such changes due to higher transaction costs, slow policy implementation and lack of integration into trade agreements. The contrast is quite clear: India may be proficient in pharmaceuticals and a few engineering goods but it has not acquired the extent or the level of competitiveness typical for East Asia. As a result, India has seen its market share in various sectors dwindling due to this competition and its exporters have become dependent on niche markets or domestic demand instead of being able to expand aggressively into the global markets. Domestic consumption patterns have also been a major factor in determining the export orientation of India. On one hand, the emergence of a large and affluent middle class has resulted in a strong internal market for manufactured goods which in turn has led to a reduction in production for the export market (Aggarwal et al., 2025). The stability that this domestic demand brings along with its industrial growth support is overshadowed by the fact that it lowers the drive for firms to improve quality and increase scale so as to be able to meet international standards. Going for the export route demands a firm to be constantly investing in technology, compliance and efficiency. However, in India it is common for firms to prefer servicing the domestic markets where standards are not that stringent and it is possible to keep the margins without much innovation. Such an internal focus has curtailed the country's ability to establish globally competitive industries, thereby deepening the structural deficiencies of its export profile. The scales of prioritization between the two, domestic consumption and foreign markets, are still unbalanced with the latter often being treated as secondary although it is crucial for solving the trade deficit problem. Lastly, exchange rate fluctuations are another factor that make India's export competitiveness complicated (Mariyankari and Rathod, 2024). The value of the Indian rupee against the major currencies especially the US dollar influences directly the cost of exports and imports. A weaker rupee may help Indian goods to be more competitive in foreign markets by making the goods cheaper, however, it increases the cost of imports in particular essential inputs such as crude oil and electronics components. On the other hand, a stronger rupee lowers the cost of imports but at the same time exports become less desirable in the global markets. India's journey has been a bit turbulent with exchange rate fluctuations frequently breaking down the stability of export earnings. Besides this, there are structural problems like reliance on imported technology and energy to an extent that even if the rupee depreciates, exporters are not able to take full advantage of it as their input costs are increasing. This situation is a clear indication of the vulnerability of trade balance of India to external shocks and at the same time it evidences the necessity of having a strong domestic capability to import less. Combining these global and domestic demand factors, it is clear why manufacturing exports from India have not managed to establish lasting competitiveness. Among the factors contributing to this situation are the limited integration into global value chains, fierce competition from East Asian economies, the predominance of domestic consumption over export orientation, and the volatility of currency fluctuations. All these factors significantly strengthen the structural weaknesses that ultimately lead to the persistence of India's trade deficit.

VI. Macroeconomic Implications Of Trade Deficit

Trade deficit has significant macroeconomic consequences that impact areas far beyond the immediate gap between imports and exports. Fundamentally, the trade deficit is a major factor of the current account deficit which covers not only goods trade but also services, remittances and investment income. Merchandise trade deficit has been the major factor causing pressure on India's external stability, although at times the strong services exports from India and remittance inflows have helped to balance the overall current account. Looking ahead, a bigger current account deficit will increase economic vulnerability to external shocks such as changes in global commodity prices or unexpected capital outflows (Jijin et al., 2022). Such vulnerability is quite significant in the light of heavy reliance on imports of crude oil, electronics and machinery which are essential for both consumption and industrial production. Any global price increase or supply disruption results in an expansion of the trade deficit, hence the currency devaluation risk and inflationary pressures go up. Hence, a trade deficit is hardly a one off event; rather it is a regular feature of the economy that in a most direct way exposes India to external vulnerability and limits its potential for macroeconomic stability. The impacts of the trade deficit on employment, industrial growth and the balance of payments are of the same magnitude (Nautiyal et al., 2023). Basically, a continuous deficit is a symptom of domestic industries not being able to compete effectively in international markets which means that export-oriented sectors will not be able to create many new jobs. The manufacturing sector which is capable of providing jobs to a large number of workers has not grown enough to be able to produce jobs that are shared by the majority of the people. The dependence on imports for high-value goods and technology-intensive products has limited industrial growth and has left domestic companies dependent on the low-value segments of the market where there is very little scope for productivity gains. This situation also has repercussions on the balance of payments because the foreign exchange that is paid for the imports has to be balanced by inflows of services, remittances or capital investments. Even though foreign capital has been flowing into India and the country has been able to keep up its foreign exchange reserves depending on such inflows is like living on a fragile equilibrium. Any fluctuation in capital markets or a drop in services exports could in fact bring to light the hidden flaw of merchandise trade balance, thus, resulting in a demand for foreign reserves and instability of the currency (Jijin et al., 2022). Debates on whether the trade deficit can be sustained have been a focal point of discussion among economists and policymakers. Those in favour believe that the deficit is not a problem if it is met with stable foreign capital inflows and strong services exports. They refer to the increase of India's foreign exchange reserves and the availability of various sources of foreign earnings as proof that the deficit level is not a danger. Meanwhile, others argue the structural nature of the deficit impelled by weak manufacturing exports and dependence on imports of essential goods makes it fundamentally unviable over time. They draw attention to the risks involved in excessive reliance on services and remittances which cannot be expected to grow forever and indicate that external shocks could rapidly disturb the balance. The debate also involves whether India should aim at aggressive export-oriented industrialization along the lines of East Asian economies or go on exploiting its comparative advantage in the services sector. To sum up, the sustainability of the trade deficit hinges on India's ability to resolve the structural issues of its manufacturing sector, expand the range of its exports and reduce the reliance on imports of crucial goods.

VII. Policy Interventions And Their Effectiveness In Addressing Export Weaknesses

The policy responses to continuing trade deficit and weak manufacturing exports have largely shifted to a variety of export promotion schemes and reform initiatives. However, the overall effectiveness of such measures has been rather limited and it is still debated to a great extent. Special Economic Zones (SEZs) which are targeted areas that receive special consideration with regard to the industrial policy of a country were introduced in the early 2000s to provide infrastructure, tax incentives and regulatory flexibility as a way to attract investment and increase exports. Although SEZs did manage to create some industrial activity hubs and generate employment their overall impact on manufacturing exports has been insignificant. There are lots of cases how many zones were left largely unused and faced problems with land acquisition leading to uneven sectoral performance. All these led to the point where the critics started to say that SEZs became enclaves rather than engines of broad-based industrial growth. Very recently, the Production Linked Incentive (PLI) schemes by tying incentives to incremental production and exports have tried to promote domestic manufacturing in such sectors as electronics, pharmaceuticals and renewable energy. These plans have been quite successful in attracting investments and pushing companies to enlarge their scale of operation. However, issues remain about their viability in the long run and the possibility of the process being captured by those looking for easy profits and the ability of PLI schemes to really change India's status in global value chains. Likewise, the Make in India campaign which came into being in 2014 was aimed at making India a manufacturing power player at the global level. The campaign was successful in creating awareness and indicating the policy direction but the results have been limited due to structural bottlenecks in infrastructure, complicated regulations and low exposure to global markets. The export strategy of India has also been largely reliant on Free Trade Agreements and Regional Trade Agreements that have come with highly debated roles. The intention behind these agreements is to open new markets and to integrate the local economies into regional supply chains through bilateral and regional agreements such as those with ASEAN countries, Japan and South Korea. However, the advantages have not been fairly shared as imports have increased at a much faster rate than exports in many cases thereby worsening the trade deficit. Those against the move insist that India has not made the most out of these agreements due to its low manufacturing competitiveness and limited export basket diversification. India's withdrawal from the Regional Comprehensive Economic Partnership (RCEP) in 2019 was the concern that India would be flooded with imports from economically stronger countries like China. At the same time, it was partly a reluctance to fully embrace regional integration. The trade policy debate in India still continues: Should India enter more trade agreements to gain access to larger markets or should it be more cautious in order to protect its own industries? The question of how to reconcile openness with protectionism remains a highly politically sensitive issue. Most of the discussions about industrial upgrades and innovation policies stress that Indian industry is in need of systemic changes rather than merely receiving incentives for moving up the value chain. They point out how R&D, technology transfer facilitation and industry academic partnerships play a crucial role. Innovation policies that encourage companies to adopt advanced technologies, enhance product quality and meet international standards will significantly increase competitiveness. Nevertheless, the R&D expenditure in India is still quite low as compared to other rapidly developing countries and the innovation supporting institutional framework is fragmented. Without a clear plan for industrial upgrading, there is a chance that India will be confined to low-value segments of global trade and will fail to compete in high-tech sectors where the level of profits and growth prospects are higher. One of the key aspects of the discussion should be reforms in the governance that empower MSMEs. The Micro, Small and Medium Enterprises (MSMEs) sector constitutes the core of manufacturing exports from India, however, these enterprises seem to be continually facing the difficulties in getting access to finance, technology and international markets. Different policy initiatives have tried to offer credit facilities, skill development and digitalization programs but there are still big gaps in the execution. A lot of MSMEs are facing problems due to compliance requirements, lack of basic infrastructure and having very low bargaining power in the supply chains. Governance reforms that can ease regulations and make operations more transparent and provide stronger institutional support are thus necessary to realize the full potential of MSMEs. Giving more power to these small enterprises would be a step towards not only broadening the range of India's exports but at the same time, generation of employment and promotion of inclusive growth. There is clearly a crucial need to bring MSMEs into industrial clusters, boosts their technological skills and makes sure they are capable of competing in the global markets.

VIII. Conclusion

The deficit in the merchandise trade has been a persistent feature of the Indian economy even though services exports and remittances have helped to provide some cushion. This is a stark reminder of the fact that the Indian manufacturing sector is far from being globally competitive. The past trend depicts that the share of agriculture in exports has gone down, services have shot up and manufacturing has not grown at the pace required to make India a global manufacturing hub. The structural defects in manufacturing exports sector are the main reasons behind this imbalance. The Indian export basket is still very limited which means that it is not diversified and therefore prone to external shocks as well as competition. It is heavily concentrated in a few sectors such as textiles, gems and jewelry and pharmaceuticals. Instead of focusing on high-tech products, India has relied on low value-added goods which have held it back from climbing up the global value chain. Quality and standards issues, on the other hand, have been limiting Indian goods from access to high-end markets. MSMEs that are the core of manufacturing exports have been continuously struggling with issues around finance, technology and compliance which have limited their capacity to grow and become part of the global supply chains. These shortcomings lead to the continuous presence of the trade deficit as India continues to be dependent on imports for crucial products and remains incapable of diversifying its export basket. Moreover, policy and institutional factors render the situation even more tangled. At times, the industrial and trade policies have been liberalization oriented and at other times protectionist, but these changes have been incoherent and lacking in long-term vision. Export promotion programs like SEZs, PLI and Make in India have yielded varied results with some sectors flourishing but overall there have hardly been any transformative changes. Besides tariff and non-tariff restrictions, the poor state of infrastructure and the complexity of regulations also bring about high transaction costs and act as a deterrent to investment in the export-oriented manufacturing industries. Governance issues such as inefficient bureaucracy and unstable policies work against the development of trust and hence, prevent the firms from strategic planning. These institutional flaws have been a major factor in the inability of the country to develop globally competitive industries when, at the same time, the policy discourse had been stressing a growth model that is based on manufacturing. The limited integration of Indian goods in the global value chains is one of the main reasons why it has not been able to capture the scale and efficiency benefits from which East Asian economies have leveraged their export-led growth. China and Vietnam among others have taken away India's market share in many sectors. At the same time, domestic consumption has in most cases led production away from exports making the firms lose the incentives for quality upgrading and scaling. Such demand pressures reflect structural problems for the export manufacturing sector in India and show how difficult it is to sustain export growth in a challenging and highly competitive global setting. The macroeconomic consequences of the trade deficit are far reaching. If deficits keep occurring, they contribute to imbalances in the current account increasing external vulnerability and lead to a depletion of reserves reducing stability in the currency. Moreover, deficits reveal the lack of manufacturing capacity to generate employment and productivity gains at scale, thereby holding back industrial growth and limiting the role of inclusive development. It is a matter of domestic structural weaknesses, policy incoherence and limited global integration that together explain India's trade deficit rather than external factors only. The continuing existence of these issues shows that it is necessary to invest in technology, innovation, infrastructure and governance reforms which empower MSMEs and connect them to the global value chains. It also demands a strategic reorientation of industrial policy towards diversification, quality upgrading and long-term competitiveness.

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