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What will it take for India's New Free Trade Agreements to Avoid Pitfalls?

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The India-UK free trade agreement may serve as a model for a future deal with the EU. However, talks with the US risk introducing tough terms into a bilateral pact. As imports rise through these FTAs, India can benefit only if it boosts exports by leveraging market access and supporting exporters.

India's trade diplomacy is passing through one of its most crucial phases ever. A free trade agreement (FTA) with the United Kingdom has just been concluded while negotiations are in progress with several major partner countries, including the United States and the European Union. When these agreements are concluded, more than 55% of India's trade will be conducted with its FTA partners (based on 2024–25 trade). The implementation of these agreements will mark a complete turnaround for India from an FTA-sceptic supporter of multilateral trade liberalisation to one that has now fully embraced trade liberalisation through bilateral FTAs.

After the conclusion of India's FTA with the United Arab Emirates in 2022, its trade agreements have changed significantly, especially in terms of the issues included in them. Most of the earlier FTAs were 'shallow': they did not require extensive opening of the goods and services markets. Additionally, India had the flexibility to exclude all of its sensitive sectors, which meant those that could not withstand import competition. Included amongst these were agriculture and automobiles.

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Though investment protection was included in the agreements with the Association of Southeast Asian Nations (ASEAN), Japan, and Korea, the provisions of these agreements did not go beyond the commitments India had made through its bilateral investment treaties. Government procurement was excluded from these agreements. So, foreign companies could not bid for government contracts in India's large domestic market that was dominated by small and medium enterprises. And, finally, labour and environmental standards were excluded, in keeping with India's steadfast opposition to linking these issues with trade.

That India is now agreeing to the inclusion of all areas excluded from earlier trade deals is nothing less than a paradigm shift for the country's trade policy. These trade agreements pose formidable challenges to the negotiators, but also bring plenty of opportunities and uncertainties for India's businesses. It must be emphasised that the opportunities offered by FTAs can only be seized if businesses are sufficiently prepared to take advantage of partner countries' markets. There has not been much evidence of this in the past.

India's FTAs

India's FTA with the UK in early May 2025 – the first 'new generation' FTA with a major economy – shows the extent of structural shift the government has accepted in these agreements.

Tariff cuts are deep and extensive, and include automobiles, hitherto considered 'sensitive'. The opening of the government procurement segment to foreign participation adds another dimension to market opening. Possibly the most significant impact of the FTA will be felt in critical domains such as labour and environment through the abridgement of the government's policy space. Policies in these domains will be a function of the commitments the government of India had made through this trade deal.

With the broad contours of the India-UK FTA having been agreed, it is widely expected that the India-EU FTA will look very similar. This has led some commentators to argue that the India-UK FTA will provide the template for India's future bilateral trade deals. However, the bilateral trade agreement that India is now negotiating with the US could well challenge this view. The India-US bilateral trade agreement is expected to result in significantly onerous commitments for India because of the Donald Trump administration's aggressive unilateralism while negotiating trade deals. Unlike other bilateral trade agreements through which partner countries seek win-win outcomes, President Trump had repeatedly declared that his administration “shall identify countries [...] to obtain export market access for American workers, farmers, ranchers,” a stark reminder that imperialist tendencies are still thriving in the 21st century.

Though the India-UK FTA has officially been concluded, [negotiations are continuing](#) for finalising the legal text and on some specific areas, including a bilateral investment treaty. Available information on the India-UK FTA indicates that the partners have agreed to [comprehensively open their markets](#) in both goods and services. India has offered substantial market access to the UK by promising to remove or reduce tariffs on 90% tariff lines, covering 92% of imports from the UK (based on 1992 trade figures).

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When the agreement becomes effective, 64% of India's tariff lines will be tariff-free, covering \$2.6 billion of current UK exports to India measured in 2022 prices. Benefits accruing to the UK would largely be in the areas of advanced manufacturing such as aircraft parts and scientific and technical measuring instruments. Besides, new markets will be available through tariff-free access for food products, such as fresh and frozen salmon and cod, and lamb.

India's tariffs will continue to decline over a 10-year transition period. At the end of this, 85% tariff lines and 66% of the UK's exports will enjoy tariff-free entry to India, allowing auto parts, machinery and tools, and medical technology devices, including surgical, dental and veterinary instruments, to get preferential access to the Indian market. The UK's food and drink industry will also benefit, especially producers of chocolate, gingerbread and sweet biscuits, soft drinks, and non-alcoholic beer.

The most significant concession that India has offered in the industrial sector is reduction of tariffs on automobiles from the current level of 100% to 10%, but imports from the UK will be regulated through quotas. However, the period over which the tariff reduction will be completed and the quantum of import quotas are still being negotiated. India has also agreed to sharply [reduce tariffs on its whisky imports](#), to 75% from the current level of 150%, on the day the FTA becomes effective. It will further be reduced to 40% in 10 years.

A major gain for the UK will be the participation of its businesses in India's government procurement market, estimated at US\$51 billion annually. The government of India has opened this sector to enable the UK's businesses to compete for a range of goods, services, and construction procurements for many central government entities and public sector undertakings.

India's services sector could be the main beneficiary as the [UK has offered concessions](#) in areas such as IT/ITeS, financial services, professional services, other business services and educational services, domains in which India has always sought concessions from its FTA partners. The exemption granted to Indian workers temporarily employed in the UK and their employers from paying social security contributions for three years under the Double Contribution Convention should result in financial gains for Indian service providers, enhancing their competitiveness in the UK market.

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India is looking to benefit from tariff elimination on about 99% of its exports to the UK. Tariff reductions are likely to provide a positive momentum to India's manufacturing industries, opening export opportunities for textiles, marine products, leather, footwear, sports goods and toys, gems and jewellery, and auto parts and engines. However, the UK's insistence on including several regulatory standards, especially on labour and the environment, could test the ability of Indian manufacturing enterprises to realise the anticipated benefits.

There are larger uncertainties as well. Past FTAs have shown that even in the absence of regulatory barriers, India's manufacturing sector has been unable to utilise the market access opportunities in partner countries because of its declining competitiveness. Though the government has been trying to address the infirmities of several important manufacturing industries through the production linked incentive (PLI) scheme, the slow progress in implementing it even five years after its launch indicates that India's manufacturing exports will continue to struggle.

On labour standards, India and the UK have agreed to uphold international labour protections for workers to tackle forced labour and gender discrimination in the workplace and promote decent working conditions.¹ These standards could prove daunting for India because labour reforms now being undertaken in the country are focused more on keeping labour markets flexible than facilitating collective bargaining by workers.²

As for environmental standards, the India-UK FTA supports the UK's climate and environment goals, including through implementing the [carbon border adjustment mechanism](#) (CBAM), which the UK is planning to introduce by 2027. The CBAM, which was developed when the UK was a part of the EU, is intended to put a carbon price on imports of emissions-intensive industrial products such as aluminium, cement, fertiliser, hydrogen, and iron and steel, which run the risk of carbon leakage. This occurs when businesses shift their production to jurisdictions with lower emission standards to avoid the cost of meeting stringent emissions norms.

Gauging from the similarity in the negotiating approaches of the UK and the EU, the India-EU FTA could also include stringent regulatory standards covering labour and environment. The EU could insist on the inclusion of the Corporate Sustainability Due Diligence (CSDD) Directive in its FTA with India. The CSDD Directive obliges companies based in the EU to identify and address adverse human rights, including labour rights conforming to the ILO, and the environmental impacts of their actions inside and outside Europe, through their supply chains. Indian firms participating in value chains with their counterparts from the EU could feel the effect of the Directive unless they meet all requirements by the time it is fully implemented in 2029. The market opening and other commitments that India has accepted in its FTA with the UK are likely to be there in its FTA with the EU, which would mean significant adjustment costs for Indian businesses.

US on the horizon

However, the commitments that India could end up taking under a bilateral trade agreement with the US could result in much higher costs.

First, the primary objective of US President Donald Trump's 'America First' trade policy is to substantially lower the US trade deficit with each of its partner countries. In 2024, the US trade deficit vis-à-vis India was \$45 billion, the ninth largest according to the US Census Bureau. The US president's primary trade policy objective can be realised only if India agrees to significantly increase its imports from the US, while at the same time moderating its exports to it.

India's costs of doing a trade deal with the US could be higher also because Trump has repeatedly mentioned India's high tariffs in agriculture, which he would like to see lowered. Curiously, he referred to India's 80% tariffs on rice in his 2 April 2025 executive order on reciprocal tariffs, raising questions whether the world's fifth largest rice exporter, which exports as much as half of its rice production, is interested in entering the market for India's most important staple.

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In the face of sustained pressure to lower tariffs on cereals to allow US agribusiness to enter India's domestic market, New Delhi must invest significant negotiating capital to prevent imports from undermining the twin objectives of domestic food security and rural livelihoods. Trump's past dealings show that a reduction in tariffs on major agricultural products could be one side of his tactics to open partner countries' markets, while forcing them to import American products could be the other.

The US and China trade war in Trump's first term ended in 2020 with [China agreeing to import](#) at least \$40 billion of US food, agricultural, and seafood products annually, totalling \$80 billion over two years. Besides, China was required to eliminate its domestic regulations preventing imports of meat and dairy products. Therefore, apart from resisting tariff reductions in major cereals, India must also resist pressures to mandatorily import US agricultural, dairy and meat products to prevent the erosion of farm incomes.

Equally concerning for India is a possible threat to health security through the targeting of its generic pharmaceutical industry. Over the past several decades, this industry has developed into a major supplier of cheap generics, including to the US and other advanced countries, enabled by several public interest provisions of India's Patents Act, 1970. When this act was amended two decades ago to make it consistent with the TRIPS agreement – the World Trade Organization's Trade-Related Aspects of Intellectual Property Rights agreement – lawmakers introduced specific provisions to prevent the perpetuation of patent monopolies that kept prices of medicines high. Moreover, remedies were provided in case owners of proprietary medicines refused to make their products affordable.

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The US has consistently argued that these provisions of the Patents Act undermine the interests of the proprietary pharmaceutical industry and that they must be removed from the statute book.³ The Trump administration could use the trade negotiations to realise its aim of having India amend the act.

To safeguard the country's food security and health security, India may have to effect a steep reduction or elimination of tariffs across the manufacturing sector. This should be an acceptable bargain as India's average tariffs on most manufacturing products are in single digits. There are two exceptions: automobiles and mobile phones. The former should be able to adjust to a lower tariff regime if imports are regulated through quotas and the tariff reduction is phased over 10 years. The fast growing mobile phone industry could experience difficulties as its revival was facilitated by a 20% tariff. With Trump insisting that Apple relocate its production facilities in India to the US, this industry looks less certain of facing serious challenges.

Conclusions

The government's decision to finalise FTAs with three major trading partners is a defining moment for the Indian economy. Imports will increase, as they should following a steep tariff reduction, and efforts must be made to increase exports by taking advantage of the market access opportunities offered by partner countries, including by creating an enabling environment to promote exports. Opportunities from earlier FTAs could not be taken advantage of because such an environment was absent. If this is repeated, the Indian economy could suffer irreparable damage.

While it is imperative that India's agriculture and manufacturing sectors are strengthened to become globally competitive, it is also vitally important to continuously upgrade the country's trade-related infrastructure. In addition, trade facilitation measures that can help reduce costs have to be improved. Without these initiatives, it is difficult to expand India's footprint on the global market.

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Footnotes:

1 This includes protections on freedom of association and protection from forced labour in keeping with the Fundamental Conventions of the International Labour Organisation (ILO).

2 India has not yet ratified the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87) and the Right to Organise and Collective Bargaining Convention, 1949 (No. 98).

3 The Office of the US Trade Representative conducts an annual review of the state of intellectual property protection and enforcement in the country's trading partners around the world. Its 2025 Special 301 Report targets India's Patents Act.

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