



SEALING THE DEAL: India-UK FTA & A New Economic Dawn

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India and United Kingdom (UK) signed Comprehensive Economic and Trade Agreement (CETA), in the presence of Prime Minister Shri Narendra Modi and UK Prime Minister Sir Keir Starmer. The agreement was signed by Commerce and Industry Minister Mr. Piyush Goyal and Secretary of State for Business and Trade, Mr. Jonathan Reynolds. Dr. S. Jaishankar, Minister of External Affairs and Ms. Rachel Reeves, Chancellor of the Exchequer were also present. Following over three years of intensive negotiations, including several missed deadlines, India and the UK successfully concluded talks on a landmark free trade agreement (FTA) on May 6, 2025, culminating in the signing of the India-UK CETA. A longtime impending comprehensive deal, it is often touted as one of the most significant post Brexit trade agreements for the UK, while also supplementing India's goal of becoming a 1 trillion-dollar economy and goods exporter by 2030. Being thus awaited, the FTA holds promises of redefining the economic landscape between these two historic partners.

While the odyssey to see the negotiations culminate fruitfully started in 2022, the journey itself

navigated political transitions in both nations and a sway of complex discussions across 26 chapters. Quite unassumingly, the ambition of this agreement is underscored by its sheer scale- covering goods, services, digital trade, government procurement, including intellectual property.

What will be the Key Gains through such Tariff Reductions?

For India, the FTA is a resounding win for its emerging export-oriented sectors, premised on the stellar promise it sought to demonstrate. The UK has agreed to eliminate tariffs on 99% of Indian exports which enables an incomparable competitive edge to Indian products seeking entry into the UK. Here, labour intensive industries are poised to be the major beneficiaries. A case in point would be Indian apparels and textiles which currently face tariffs in the UK of up to 12%, not considering the stiff competition from countries with unsettling duty free access, will now enter the UK market at zero duty with a robust outlook. This acts as an addendum wherein the playing field is levelled against competitors like Bangladesh and Vietnam,

carrying a real potential to double India's textile exports to the UK over the next five to six years. Other sectors poised for substantial gains includes:

- **Engineering Goods & Auto Parts:** Elimination of tariffs, the same which previously ranged from 8-14%, are now reduced to zero %.
- **Gems & Jewellery:** This enhances access to the Indian gemstone industry, inarguably one of the most prominent, to the UK's affluent consumer base.
- **Leather, Footwear, Sports Goods, and Toys:** these sectors will also see increased benefits and incentives from zero duties.
- **Chemicals:** The FTA is expected to unlock new export potential, primarily in the organic chemicals.

Simultaneously, on the other side, India will reduce tariffs on 90% of British goods, with 85% assured to become tariff free within a decade. This also includes significant cuts on high value British exports such as:

- **Scotch Whisky and Gin:** Tariffs previously as high as 150%, will be immediately halved and reduced further to 40% over a period of ten years.
- **Automobiles:** Duties on luxury British cars will be lowered to 10% from 100% under specified and determined quotas, thereby facilitating even greater market access in India's growing luxury segment cutting across multiple niches.
- Medical devices, machinery, aircraft parts, lamb, salmon, soft drinks, chocolates, and cosmetics among other things will also see substantial tariff reductions.

Unlocking Opportunities: What do the Services Sector and Mobility of Workers Stand to Gain from this?

Beyond goods, the FTA makes considerable strides in the services sector worthy of acknowledgment in attaining turnovers. Albeit the UK Law Society



perceiving the exclusion of legal services as a “missed opportunity”, the agreement provides guaranteed market access along with non-discriminatory treatment for UK financial and professional services firms doing business or situated in India. A most significant development is that of the Double Contribution Convention (DCC), which provides for an exemption in paying social security conventions up to 3 years for Indian workers temporarily employed in the UK and their employers and likewise for the British professionals in India, where social security contributions will be paid only in the respective home countries. This aims to significantly reduce costs and administrative burdens, enabling a noticeable boost in opportunities for Indian professionals in the UK, concurrently offering British businesses greater access to India's talent pool.

What do the Economic Projections and Challenges Posit?

In the current context, the bilateral trade between India and the UK stands at approximately 56 billion dollars. The FTA seeks to have tangible results insofar that it is projected to increase this figure by an impressive 25.5 billion dollars annually by 2040, where a compelling estimate suggests a 15% annual growth until 2030. India has her own intentions to double its total bilateral trade- comprising goods and services from \$60 billion to \$120 billion by 2030. However, substantial obstacles are seen to be challenging the smooth facilitation of this FTA. The UK's Carbon Border Adjustment Mechanism (CBAM), which is set to come into effect from January 1, 2027, remains a point of contention and controversy not just from the Indian counterparts, but even from UK's trade partners outside of the Eurozone. This 'carbon tax' on carbon intensive imports could witness a negative impact on Indian exports like iron, steel, and fertilizers. While the FTA includes a rebalancing mechanism allowing India to seek compensation or take remedial action if the CBAM negatively impacts its exports, detailed discussions on this issue are still contentious and have not been sufficiently chalked out.

Albeit of this, the recent conclusion of the India-UK FTA is not merely an economic triumph, but it postures itself and the thought process behind the laborious negotiations as a strategic move which considers the impending geopolitical implications, especially against the backdrop of a volatile global landscape. Amidst major ongoing conflicts, the uncertainty of shifting alliances, and the looming spectre of protectionist trade policies, this agreement signals a clear intent from both New Delhi and London to diversify their supply chains by simultaneously reinforcing strategic partnerships.

Navigating Global Turmoil:

The world today is a maelstrom of geopolitical tensions, as every reader is aware. The ongoing conflict in Ukraine has starkly and considerably

reshaped energy markets and exposed vulnerabilities in global supply chains. Simultaneously, the persistent tensions in the Indo-Pacific, particularly concerning China's belligerence seen through aggressive actions, underscores the imperative for nations to friendshore and build resilient economic ties with respective trusted partners. Thus here, India-UK FTA emerges as a tangible manifestation of this strategy. For the UK, post-Brexit, it is a crucial and judiciously prudent step in forging new trade relationships beyond the convenience extended through the European Union (EU), thereby signalling its commitment to a global trade agenda. As for the case of India, it bolsters her position as a reliable and stable partner in a world increasingly wary of over reliance on single markets or adversarial nations. The agreement's provisions on digital trade, supply chain resilience, and even the "rebalancing mechanism" related to the UK's Carbon Border Adjustment Mechanism (CBAM) reflect a forward-looking approach to navigating these uncertainties. By reducing dependence on intermediaries and streamlining customs, the FTA contributes to strengthening India-Europe logistics corridors, thereby building more robust supply chains.

The Trump Factor and Reciprocal Tariffs:

A significant shadow cast over global trade is the return of President Donald Trump, not without his characteristic "America First" trade policies, augmented by the conundrum created in the international markets by the imposition of his reciprocal tariffs. Trump's previous administration saw trade wars with China and threats of tariffs on various allies was considered a real possibility, where now the possibility has been factualized- shaking the faith in the dollar and US policy and subsequently creating considerable instability. In light of President Trump's implementation of widespread tariffs again, the India-UK FTA has become even more critical for both nations. For India, a robust FTA with the UK could offer a degree of insulation from potential US protectionism, and will stand to absorb any fallouts from the ultimatum of reducing Indian tariffs. If Indian goods face increased tariffs in the US, duty free access to the UK market becomes an even more valuable proposition, helping to cushion the blow and maintain export momentum. Similarly, since India's trade relationship with the US has been complex and increasingly getting fraught under the Trump administration, the India UK Comprehensive Economic and Trade Agreement (CETA) with India offers a significant and growing market for its goods and services, reducing its susceptibility to unilateral US trade actions. Indeed, the alcohol and automobile sectors, notably targeted by President Trump's previous tariffs, will see Indian tariff reductions under the FTA, demonstrating a strategic move to diversify market access.

India's FTA Rationale: A Strategic Diversification Initiative

India's recent proactive pursuit of Free Trade Agreements with multiple countries is a calculated and adroit strategy, moving away from a historically more cautious approach. This shift can be alluded to several rationales:

1. Market Diversification and De-risking:

India has been aiming to reduce its reliance on a few large markets and diversify its export destinations. This is particularly crucial in a world where geopolitical tensions can have a vast and rapid domino effect - consequently disrupting international trade flows of demand and supply (goods and services considered), and impressing upon national economies as well. By engaging with multiple partners like the Gulf nations- particularly the UAE and Saudi Arabia, the EU, and now the UK, India minimizes its exposure to economic shocks from any single nation.

2. Integration into Global Value Chains:

FTAs provide preferential access to key markets, enabling Indian industries to integrate more deeply into global value chains. This not only boosts exports but also facilitates the import of critical raw materials- the supply of which is exceptionally located in a select few countries, intermediates and capital goods, as well as stimulating domestic manufacturing and technological advancement.

3. Attracting Foreign Direct Investment:

Comprehensive FTAs as witnessed in how fine-tuned the India UK one is, especially accounting for strong investment protection provisions, create a more predictable and attractive environment for foreign direct investment. This is vital for India's growth- bringing in capital, mutually acceptable transfers of technology, and allows for entry into job creation through strategic sectors like Middle and Small Enterprises (MSMEs).

4. Enhancing Competitiveness:

Lowering tariffs and non-tariff barriers makes Indian goods and services more competitive in international markets. This allows Indian businesses, especially SMEs, to compete on a more level playing field with larger corporations, driving innovation and efficiency.

5. Strategic Autonomy & Geopolitical Leverage:

By engaging with a diverse set of partners through FTAs, India enhances its strategic autonomy. It strengthens its diplomatic and economic ties with a wider range of countries, giving it greater leverage in international forums and reducing the potential for undue influence from any single power. This pragmatic approach allows India to balance its relationships and pursue its national interests in

a multipolar world. India and the UK emerge as natural partners with a strong historical connection and their emphasis on upholding of democratic values and strong governance systems for the considerable student and skilled Indian diaspora seeking to clinch employment opportunities in the nation.

In essence, India's quest for FTAs is multifaceted, as is evidently exemplified by the UK agreement furthering the testament to its evolving global outlook - that of a proactive and pragmatic approach to navigating a complex geopolitical landscape, ensuring economic resilience, and securing its position as a major global economic player.

What Next?

The India - UK FTA marks a pivotal moment, symbolizing a deepening economic and strategic partnership. While the immediate focus shifts to legal vetting and parliamentary ratification, the long-term success hinges on effective implementation and continued dialogue to address outstanding issues. This agreement has the potential to unlock immense trade and investment opportunities, fostering job creation, innovation, and enhanced economic security for both nations in a rapidly evolving global trade landscape.

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Note: All content reflects the individual views of the authors.

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