India’s FTA Strategy Shifts from Expanding Agreements to Maximising Market Access and Export Utilisation

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Recent Developments and Current Context:

- India’s **Free Trade Agreement (FTA) strategy** is increasingly shifting from merely expanding the number of agreements towards **effective utilisation of negotiated market access**, greater export diversification and wider participation of Indian firms.
- India recorded its **highest-ever combined merchandise and services exports of US$863.1 billion in FY 2025–26**, comprising **US$441.8 billion in merchandise exports** and **US$421.3 billion in services exports**.
- FTA partner countries and trade blocs accounted for about **40.5% of India’s merchandise exports in FY 2025–26**, indicating the growing importance of preferential trade arrangements in India’s external sector.
- India’s recent agreements with the **United Arab Emirates, Australia, the United Kingdom, EFTA and other partners** have expanded preferential access for Indian goods and services.
- Under the **India–Australia Economic Cooperation and Trade Agreement**, all Indian exports, including food, agricultural and marine products, became eligible for **zero-duty access to the Australian market from 1 January 2026**.
- India’s **services exports reached US$421.3 billion in FY 2025–26**, with telecommunications, computer and information services contributing **US$206.6 billion**, or about **49.03%** of total services exports.
- The **India–United Kingdom Comprehensive Economic and Trade Agreement** and the **India–New Zealand Free Trade Agreement** represent the continuing expansion of India’s trade architecture, while existing agreements are also being reviewed and upgraded.
- The **ASEAN–India Trade in Goods Agreement** is also undergoing review, reflecting India’s emphasis on improving the quality and effectiveness of existing trade arrangements rather than focusing only on signing new agreements.

Understanding Free Trade Agreements:

Meaning of an FTA:

- A **Free Trade Agreement** is a treaty between two or more countries that seeks to reduce or eliminate trade barriers among the participating economies.
- FTAs generally provide preferential treatment through **reduced or zero customs duties**, improved market access and simplified trade procedures.
- Modern FTAs increasingly extend beyond merchandise trade to include **services, investment, intellectual property rights, digital trade, government procurement, competition and trade facilitation**.
- An FTA does not necessarily mean completely free trade because participating countries may retain tariffs, quotas or other restrictions for **sensitive sectors**.

FTA, PTA and CEPA:

- A **Preferential Trade Agreement (PTA)** provides preferential tariff treatment on selected products but generally has narrower coverage than an FTA.
- A **Free Trade Agreement (FTA)** substantially eliminates or reduces tariffs on goods traded between partner countries.
- A **Comprehensive Economic Partnership Agreement (CEPA)** generally covers a wider range of areas, including goods, services, investment and other economic issues.
- The distinction is important for UPSC because India's trade architecture includes **FTAs, PTAs, CEPAs and broader economic partnership arrangements**.

India’s Recent FTA Performance:

India–UAE CEPA:

- The **India–UAE Comprehensive Economic Partnership Agreement** came into force in **2022** and has become an important example of India's effort to convert preferential market access into higher exports.
- India’s merchandise exports to the UAE reached approximately **US$37.36 billion in FY 2025–26**, making the UAE one of India's most important FTA-linked export markets.
- The agreement provides India preferential or duty-free access across a large share of UAE tariff lines and covers a substantial proportion of India's exports.
- The agreement is particularly relevant for **labour-intensive sectors, MSMEs, agriculture and processed products**, where improved market access can generate employment and broaden export participation.
- India and the UAE have also set an ambitious objective of increasing bilateral trade substantially, reflecting the strategic importance of the UAE as both a **trade and investment partner**.

India–Australia ECTA:

- The **India–Australia Economic Cooperation and Trade Agreement** was signed in **2022** and entered into force on **29 December 2022**.
- India’s merchandise exports to Australia reached approximately **US$7.28 billion in FY 2025–26**.
- From **1 January 2026**, all Indian exports, including agricultural and marine products, became eligible for zero-duty access to Australia.
- The agreement has supported export opportunities in sectors such as **textiles, pharmaceuticals, chemicals, agriculture and marine products**.
- India and Australia are also negotiating a broader **Comprehensive Economic Cooperation Agreement**, which seeks deeper integration in goods, services, digital trade and other emerging areas.

How FTAs Create Market Access:

Preferential Tariffs:

- The principal immediate benefit of an FTA is **preferential tariff access**, under which eligible Indian products can enter partner markets at lower or zero customs duties.
- However, tariff reduction alone does not guarantee higher exports because exporters must satisfy **rules of origin, technical standards, sanitary and phytosanitary requirements, documentation and other regulatory conditions**.

Certificate of Origin:

- A **Certificate of Origin** establishes that a product qualifies as originating from the exporting country under the applicable rules of origin.
- Exporters generally require the prescribed origin documentation to claim preferential tariff treatment under an FTA.

- Greater utilisation of **Certificates of Origin** can therefore indicate increasing awareness and usage of negotiated tariff preferences by exporters.

Rules of Origin:

- **Rules of Origin** determine the economic nationality of a product for the purpose of receiving preferential treatment.
- They prevent third countries from routing goods through an FTA partner merely to obtain lower tariffs.
- Effective rules of origin therefore balance two objectives, preventing **trade deflection** while keeping compliance manageable for genuine exporters.

Why FTA Utilisation Matters:

From Agreement Creation to Actual Usage:

- Signing an FTA creates a legal framework for market access, but the economic benefit arises only when Indian firms actually use the preferences.
- Low utilisation can occur because exporters are unaware of the agreement, compliance costs are high, rules of origin are complicated or foreign standards remain difficult to satisfy.
- India's current trade strategy therefore increasingly emphasises **FTA utilisation, exporter awareness, trade facilitation and market intelligence**.

Product Diversification:

- Effective FTA utilisation can help India move beyond traditional export products by opening opportunities for **new product categories and new firms**.
- Product diversification reduces excessive dependence on a limited number of commodities and markets.
- It can also improve India's resilience against **country-specific demand shocks and global trade disruptions** .

Importance for Labour-Intensive Sectors:

Employment and MSMEs:

- FTAs can create export opportunities in **textiles, footwear, leather, gems and jewellery, food processing, handicrafts, engineering goods and other labour-intensive sectors**.
- Greater access to foreign markets can allow **Micro, Small and Medium Enterprises** to integrate into international value chains.
- Export expansion in labour-intensive sectors can generate employment because these industries generally have relatively high employment elasticity compared with capital-intensive sectors.
- However, market access must be accompanied by improvements in **productivity, quality standards, logistics and access to trade finance**.

Importance of Services in India's FTA Strategy:

India's Services Export Advantage:

- India's services exports reached **US$421.3 billion in FY 2025–26**, demonstrating the increasing importance of services in India's external sector.
- **Telecommunications, computer and information services** contributed US$206.6 billion, while **business services** contributed US$124.2 billion in FY 2025–26.
- Services therefore provide India with an important comparative advantage in areas such as **information technology, business-process services, professional services, finance, education, healthcare and digital services**.

Beyond Tariffs:

- Unlike goods trade, services trade is often affected more by **regulatory barriers, professional qualification requirements, data regulations, mobility restrictions and recognition of credentials** than by customs duties.
- India therefore seeks greater **Mode 4 market access**, which concerns the temporary movement of natural persons to provide services.
- **Mutual Recognition Agreements** can help Indian professionals by enabling partner countries to recognise specified professional qualifications.
- FTAs can consequently become instruments for expanding India's **services exports and skilled employment opportunities**, rather than merely reducing merchandise tariffs.

Major Challenges in India’s FTA Strategy:

Low Preference Utilisation:

- Indian exporters may not fully utilise tariff preferences because of **complex documentation, rules of origin, lack of awareness and compliance costs**.
- Small exporters are particularly vulnerable because they often have fewer resources for navigating complicated trade procedures.

Non-Tariff Barriers:

- Even after tariffs are reduced, exporters may face **technical barriers to trade, sanitary and phytosanitary measures, certification requirements and domestic regulatory standards**.
- Such barriers can substantially reduce the practical value of nominal tariff concessions.

Import Competition:

- FTAs can also increase imports into India, creating competitive pressure on domestic producers.
- Sensitive sectors such as **agriculture, dairy and certain manufacturing industries** may require calibrated tariff concessions and appropriate safeguards.
- India therefore follows a differentiated approach in negotiating sensitive sectors rather than offering unrestricted market access.

Trade Diversion:

- FTAs can sometimes cause **trade diversion**, where imports shift from a more efficient non-member country towards a less efficient member because of preferential tariffs.
- The economic gains from an FTA therefore depend on the balance between **trade creation and trade diversion**.

Rules of Origin and Supply Chains:

- Strict rules of origin can reduce the attractiveness of preferential access if Indian exporters depend heavily on imported intermediate goods.
- India must therefore balance domestic value addition with integration into **global value chains**.

India’s Emerging Trade Strategy:

Expanding the FTA Network:

- India is simultaneously pursuing new agreements and upgrading existing arrangements.

- The Government has been engaged with partners including the **European Union, Peru, Chile, New Zealand, Oman and other economies**, while discussions are also underway with the **Eurasian Economic Union**.
- Existing agreements such as the **India–Korea CEPA** are also being considered for upgradation to improve market access and address emerging trade issues.

Deepening Existing Agreements:

- The next phase of India’s FTA strategy involves improving the implementation of existing agreements rather than measuring success only by the number of agreements signed.
- The review of the **ASEAN–India Trade in Goods Agreement** illustrates this shift towards improving the functioning of established trade arrangements.
- India’s trade policy is consequently moving towards **market-access utilisation, export diversification, services integration and supply-chain resilience**.

Significance for the Indian Economy:

Export-Led Growth:

- Greater FTA utilisation can expand India's export markets and support **foreign-exchange earnings, employment and economic growth**.
- A wider export base can also reduce excessive dependence on individual markets and improve resilience against global economic shocks.

Integration with Global Value Chains:

- FTAs can encourage multinational and domestic firms to integrate India more deeply into **Global Value Chains**.
- Predictable market access can improve India's attractiveness as a manufacturing and investment destination.
- However, this requires competitive logistics, reliable infrastructure, skilled labour and efficient customs procedures.

Strategic and Geoeconomic Benefits:

- FTAs increasingly function as instruments of **geoeconomic diplomacy**, allowing India to deepen strategic relationships through economic interdependence.
- Agreements with the UAE, Australia, the UK, EFTA and other partners can strengthen India's presence across the **Indo-Pacific, Europe and West Asian markets**.
- Diversified trade partnerships can also reduce excessive dependence on a limited number of major markets.

Way Forward:

Making FTAs More Effective:

- India should move from an **FTA signing approach to an FTA utilisation approach** by systematically monitoring preference utilisation at the product and firm levels.
- Exporters, particularly MSMEs, should receive easier access to information on **tariffs, rules of origin, standards, documentation and foreign-market regulations**.
- Digital trade platforms can reduce compliance costs and improve access to FTA-related information.
- India should negotiate stronger provisions addressing **non-tariff barriers, technical standards and professional mobility**, particularly in sectors where tariff barriers are already low.

- Greater use of **Mutual Recognition Agreements** can improve access for Indian professionals in overseas markets.
- Export competitiveness must be strengthened through better **logistics, infrastructure, trade finance, skilling, quality certification and research and development**.
- Sensitive domestic sectors should receive carefully calibrated protection while avoiding excessive barriers that undermine India's integration into global value chains.
- Periodic review of FTAs should be based on measurable indicators such as **export growth, product diversification, preference utilisation, MSME participation and services-market access**.

Conclusion:

- India’s FTA journey is entering a more mature phase in which the central challenge is no longer simply **how many agreements India has signed**, but how effectively Indian businesses utilise the market access created by those agreements.
- The record **US$863.1 billion exports in FY 2025–26** demonstrates the expanding capacity of India's merchandise and services sectors, while growing exports to several FTA partners indicate the potential of preferential market access.
- The next phase should combine **FTA utilisation, export diversification, services-market access, MSME integration and global value-chain participation**.
- A successful FTA strategy must therefore connect international market access with domestic competitiveness so that tariff preferences translate into **higher exports, employment, investment and sustainable economic growth**.

Value Addition for UPSC:

Key Concepts:

- **Trade Creation:** An FTA can shift consumption towards lower-cost imports from member countries, improving economic efficiency.
- **Trade Diversion:** An FTA can shift imports from a more efficient non-member country to a less efficient member because of preferential tariffs.
- **Rules of Origin:** These determine whether a product qualifies for preferential treatment under an FTA.
- **Non-Tariff Barriers:** These include technical standards, sanitary and phytosanitary requirements, licensing conditions and regulatory restrictions.
- **Trade Facilitation:** It involves simplifying, modernising and harmonising export-import procedures to reduce transaction costs.
- **Mutual Recognition Agreement:** It facilitates recognition of professional qualifications or regulatory standards between partner countries