Delhi Policy Group
Advancing India's Rise as a Leading Power

# POLICY BRIEF

## The India-UK FTA


***Author***
V.S. Seshadri

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**Delhi Policy Group**
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## Cover Photographs:

*Indian Prime Minister Narendra Modi held a bilateral meeting with Prime Minister of the United Kingdom, Keir Starmer during the G20 Summit, at Rio de Janeiro, in Brazil, on November 18, 2024. Source: Narendra Modi*
*Indian Prime Minister Narendra Modi and Prime Minister of the United Kingdom Keir Starmer held a telephone conversation, where they announced a comprehensive India-United Kingdom Free Trade Agreement, on May 6, 2025.*
*Source: X/@Keir_Starmer*
*India's Commerce and Industry Minister Piyush Goyal held a bilateral meeting with UK Secretary of State for Business and Trade Jonathan Reynolds, on April 28, 2024. Source: X/@PiyushGoyal*



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### BOXS

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## Introduction

After over 40 months since the start of negotiations in January 2022, a comprehensive India-UK Free Trade Agreement was reached between the two sides on May 6, 2025. The text is presently going through legal scrubbing after which it will be signed, which is expected in about two to three month's time. Internal approvals will then have to follow, which in the UK's case will also involve parliamentary approval. This agreement, if all goes forward without any hitch, should come into force sometime in 2026.

While the full text may be released only after it is signed, both India and the UK have separately made available the highlights[1]. The UK government website[2] also carries chapter summaries of the text. Expectedly, each side draws attention chiefly to the potential benefits for its own trade and industry. But read together, they do give a broad picture, even if not a complete one. There have also been some piece meal reports quoting 'official sources' that have brought out a few other details, hopefully reliable.

In view of India's several ongoing trade negotiations, including in respect of the FTA with the EU and the BTA with the US, it may be important to understand the trends from available material rather than wait for the full text, particularly since India's Commerce Secretary Sunil Barthwal has stated that this FTA may be a gold standard for India's future trade agreements. In this brief, we analyse the outcome largely from an Indian perspective. Our focus will be on certain key aspects relating to market access, government procurement, certain regulatory aspects and standards.

## Market access in goods

### UK's tariff concessions

Market access is a key determinant of any FTA's depth and scope. The UK's tariff elimination under the FTA will cover about 99% of its tariff lines that will include almost 100% of India's exports, as against its applied MFN tariff that presently

[1] https://www.pib.gov.in/PressReleasePage.aspx?PRID=2127321
[2] https://www.gov.uk/government/publications/uk-india-trade-deal-conclusion-summary/uk-india-trade-deal-conclusion-summary

allows only 39% of agriculture items and 55% of non-agricultural items duty free.

It should, therefore, enhance opportunities for India's exports of labour intensive items such as apparel, textiles, marine products, gems and jewellery, leather and footwear, sports goods and toys, several of which carry relatively higher MFN duties in the UK. It would of course be important that that care has been taken to ensure that the set rules of origin, particularly for gems and jewellery and marine products, will meet the special needs of these sectors.

Similarly, the duty reductions on engineering goods, auto parts and engines and organic chemicals, on which India's exports are sizeable (see Box 1 for some trade details), should also help even if the existing MFN duty levels on them in the UK are only around 3%. The items excluded from any tariff reduction include sugar, milled rice, pork, chicken and eggs.

## Box 1: India-UK Goods Trade

Table: India -UK Merchandise Trade (US$ million)

| | 2022-23 | 2023-24 | 2024-25 (11 mths) |
|---|---|---|---|
| Exports from India to UK | 11405.63 | 12922.60 | 14549,71 |
| Imports from UK into India | 8960.73 | 8413.59 | 8606.87 |
| Trade surplus for India | 2444.90 | 4509.01 | 5271.33 |
| Total trade | 20,366.26 | 21336.19 | 21060.11 |

India's exports to the UK have shown a steady increase in recent years, with India also enjoying a trade surplus. India's principal exports are electrical machinery, machinery, refined petroleum products, gems and jewellery, garments and textiles, pharmaceuticals, steel and steel items and organic chemicals. India is the 13th largest goods import source, accounting for 1.8% of UK's goods imports in 2024.

India's imports from the UK declined somewhat in 2023-24 but have shown some rise in 2024-25. India's principal imports from the UK include gems and jewellery (largely silver), machinery, electrical machinery, steel (mainly scrap and waste), aluminium (mainly scrap), alcoholic drinks, medical devices and instruments, automotives, copper (mainly scrap) and pesticides. UK's market share has been declining in the Indian market and currently stands at around 1.1%.

For Indian exporters of milled rice, this will be a disappointment (India's basmati rice exports to the UK that go largely in brown rice form are on average US$ 200 m per year), since the duty differential in UK between brown rice imports (25 GBP per ton) and fully milled white rice imports (121 GBP per ton) is substantial. Clearly, the rice milling industry in the UK have been able to prevail in this case even though, under the CPTPP, Britain has given TRQ access for Vietnam and Malaysia for milled rice imports.

Similarly, the sugar industry in the UK has successfully kept out India from getting any TRQ under the FTA. While India has not been a regular exporter of sugar to the UK, it used to export some quantities under a EU quota before Brexit. Certainly, some duty free TRQ should have been obtained considering India's status as a significant sugar producer. One news report has, however, quoted an official as indicating that since the UK recognised India's sensitivities on dairy products, Delhi too has recognised UK's concerns over market access for sugar and milled rice.

A second aspect to be kept in view while understanding the UK's tariff reductions is that UK is already party to 39 FTAs (the highest after the EU) covering 79 countries, that includes also export oriented economies like Malaysia and Vietnam that are signatories of CPTPP. India receiving 99% tariff elimination merely puts India on a level playing field with these countries, that also have a first mover advantage. So, Indian exporters wanting to benefit from this new opportunity will have to devise special UK-focussed strategies and market promotion efforts for enhancing their market shares. It would not happen automatically.

## India's tariff concessions

As for India's tariff concessions, India will eliminate tariffs on 64% of tariff lines on day 1 of the agreement which will go upto 85% by the tenth year. Additionally, around 5% of tariff lines will see tariff reductions (not elimination) and/or allocation of specific quotas. Altogether, the market access coverage given to UK will extend to 90% of tariff lines and 92% of imports, creating a new precedent. As per one report India will not be giving any duty concessions[3] on sensitive items like dairy products, apples, cheese etc., UK expects significant benefits to accrue to the food and drinks, lamb and salmon, cosmetics,

[3] https://economictimes.indiatimes.com/news/economy/foreign-trade/india-uk-fta-no-duty-concessions-on-british-dairy-products-apples-cheese/articleshow/120940612.cms?from=mdr

automotives, machinery and tools, electrical circuits, high end optical products and medical devices sectors.

Two sets of items that the UK has been pushing for will be significantly liberalised. One is whisky and gin on which the current 150% duty will be reduced to 75% on day one (current import levels are around US$ 300 per annum) that will get reduced to 40% by year 10.

Second is in respect of passenger cars which will now have a TRQ for which duties will be staged down from the current 100% duty to 10% in the tenth year. While the overall quota level has not been disclosed, it appears that the quota starts with internal combustion engine (ICE) cars but transitions to electric vehicles (EVs) and hybrid vehicles reflecting on how manufacturing in the UK is evolving. Similarly, Indian access to the UK market for EVs and hybrid is also staged and under a quota to support the UK auto industry's transition to fully EVs, while increasing consumer choice. Further, one report indicates that India has agreed to slash import duties only on 'premium' cars. More details on all this would certainly be necessary to enable a hard headed assessment. We can, however, presume that the EU and US will now start pressurising India for similar quotas, but with larger numbers, and our earlier FTA partners like Korea and Japan could do likewise. It is hoped that the government has a roadmap for liberalisation of this sector.

Yet another product that deserves some attention is silver imports into India, which forms the single largest item of import from the UK adding upto US$ 2.1 bn and amounting almost to 25% of total imports from that country. Since the UK is not a major silver producer but is a significant refining hub from scrap, it will be interesting to see what will be the rule of origin for this item. It would be important, considering that London is also an international metals hub, that traded silver from third countries does not get into the FTA stream as happened some years ago in the case of South Korea, where India had to take some measures.

Another aspect highlighted by the UK side is that if India were to offer better terms of market access to a different country, then the UK could return to the table. Presumably, this is only an opportunity afforded to the UK in such an event, and the ensuing negotiations would be contingent on the UK also showing readiness to make some further concessions to India to maintain balance in the FTA as a whole.

## Longer term perspectives of merchandise market access

A key aspect that UK is betting on is India's fast growing economy and its steadily expanding consumer base, which could mean a steady expansion of potential gains. This is somewhat unlike the prospects for Indian exporters in the UK, where the economy is expected to see sluggish to very moderate growth (1.1% in 2024) and its population may also not show much expansion (6.6% in 15 years from 2021-2036). In that sense, India's benefits from the FTA may be more of a one-time jump in market share, with little incremental annual accruals, unless India can keep improvising its relative competitiveness steadily.

## Market access in services trade

Disclosed highlights by either side provide little insight into specific commitments made by them, including on whether the commitments made are on a positive or a negative listing basis. This is not withstanding that exports by either side to the other of tradable services significantly exceed their exports to the other of merchandise goods, as can be seen from Box 2.

## Market access for India in UK

India's Press Release refers mainly to benefitting from one of the most ambitious FTA commitments from the UK in services such as IT/ITeS, financial services, professional services, other business services, and educational services. Commitments on digitally delivered services specially in professional services such as architecture and engineering which are areas of strength, have been underlined. India also highlights the ease in mobility of professionals that the agreement would bring about in various categories, starting from business visitors to intra-corporate transferees and contractual service suppliers. There is no reference here, however, to provisions for movement of independent professionals generally; only few categories like chefs, yoga teachers and musicians find specific reference.

## Box 2: India-UK Services Trade

**Table: Trade in Services between India and UK (in GBP bn)**

| | 2022 | 2023 | 2024 |
|---|---|---|---|
| UK's services exports to India | 7.9 | 9.9 | 10.1 |
| UK'S services imports from India | 9.8 | 12.6 | 14.7 |
| Trade deficit for the UK on services | 1.9 | 2.7 | 4.6 |
| Total services trade | 17.7 | 22.5 | 24.8 |

Services trade between India and the UK is showing higher levels of growth than merchandise trade and are also larger in value in both directions. India holds a surplus in services trade as well and the balance has shown an expansion in recent years. India was UK's fourth largest import trade partner in services and eighth largest export trade partner.

UK's principal exports to India in 2024, as per UK government figures, were travel (GBP 7.2 bn), Transportation (GBP 583 m), telecom, computer and information services (GBP 345 m), IPR (GBP 298 m) and financial services ( GBP 230 m). Interestingly, within travel services, education related travel, that presumably include student fees etc., accounted for more than 50% at GBP 5.245 bn.

UK's main imports from India in 2024 comprised other business services (GBP 9.2 bn), travel (GBP 2.5 bn), telecom, computer and related services ( GBP 2.0 bn), financial services (GBP 356 mn) and transportation (GBP 256 mn).

As for the modes by which the trade were conducted, UK's exports were principally through Mode 2. In 2024 they accounted for GBP 5.9 bn, followed by GBP 2.1 bn by mode 1 and GBP 306 mn by mode 4. As for imports from India bulk of it came through mode1 (GBP 7.1 bn), followed by mode 2 (GBP 1.9 bn) and GBP 889 bn through mode 4.

Also, as per UK statistics, the total trade deficit comprising both goods and services, totalled GBP 8.4 billion with India in 2024, compared to a trade deficit of GBP 7.0 billion in 2023. In 2024, the UK had a trade in goods deficit of GBP 3.8 billion with India, compared to a trade in goods deficit of GBP 4.4 billion in 2023. Meanwhile, in 2024 the UK had a trade in services deficit of GBP 4.6 billion with India, compared to a trade in services deficit of GBP 2.6 billion in 2023.

## Market access for UK in India

The UK government website underlines the secure market access the FTA will bring in the areas of telecom, environmental and construction services. It also highlights that there is no need to set up a company in the other country or be a resident there to be able to supply a service. The FTA also has a Professional Services Annex allowing both sides to identify and encourage interested professional bodies on either side to enter into negotiations for arriving at bilateral arrangements for mutual recognition of professional qualifications and licenses. A working group will be set up for this purpose. There is also a favourable reference to the locking in of a commitment from India in allowing upto 74% UK owned share in investments in insurance and banking, sectors in which UK wields particular strength.

## Could we have done better?

It does not appear that India has obtained any special dispensation for grant of visas under the FTA. The UK government. website specifically mentions that their points based immigration system is not in any manner going to be affected by the FTA. Also, the FTA does not seem to have included any provision on Indian student related matters, particularly in the midst of recent reports of emigration by some of them[4]. Till last year, UK's top services export to India, with a share over 50% of its total exports, was on account of education related travel (student fees included) that had surged in recent years (Box 2 refers).

Another area where more could have been attempted is in mutual recognition of qualifications or licenses to practice. If at least in one or two areas such agreements between respective professional bodies could have been reached as part of the current FTA package, it would have been commendable and may have set a model for more such deals. Two aspects need particular recognition here. One, India has been able to make little progress on such negotiations with some of our earlier FTA partners, even as those FTAs provided for them just as in the present case. Secondly, each such negotiation is seen not as a mere facilitational move for greater trade, but as a fresh concession to the other FTA party that complicates matters.

## Government Procurement

Being able to bid and win government contracts of the other FTA party is another avenue for securing additional market access. So far, India has not

[4] https://timesofindia.indiatimes.com/world/uk/indian-students-workers-lead-exodus-trend-in-uks-latest-migration-data/articleshow/121351103.cms

allowed this form of access in its FTAs except in the CECA with the UAE, wherein some access was provided but the conditionalities attached made it unclear how much access was actually intended.

In the FTA with the UK, it appears a major step has now been taken to open up this area further, even if in a limited way. The UK government website has projected this as a major win for itself and noted that UK businesses will be able to compete for a broad variety of goods, services and construction procurements for the majority of central government entities in India, as well as for several of India's public sector organisations at thresholds lower than ever before.

As per UK estimates, this chapter will give UK businesses unique and unprecedented access to India's public procurement market, comprising approximately 40,000 tenders with a value of at least GBP 38 bn (around USD 50 bn).

As per details indicated, the UK entities submitting bids for permitted contracts will be treated as class 2 suppliers if at least 20% of their product or service is from the UK. In any case, the Make in India preference will still apply for approved 'class 1' suppliers offering 50% or more of their goods or services from India.

For a full evaluation of this move, however, more details would certainly be necessary in terms of the minimum threshold value for each tender for such access, the actual entities and sectors included and what would be the specification for local content. Undoubtedly, government procurement is used throughout the world to a fair degree, as a means for encouraging home grown enterprises.

Some reports indicate[5] that UK based suppliers can bid only for tenders above Rupees 200 crores (approximately USD 23 m). If this is indeed so, it would mark a limited opening which may be preferable. In any case, our tenders above Rs 200 crores could be optionally opened up for global tendering as per present policy. It is however not clear if the India-UK FTA has lowered this threshold for the UK.

Some can point to the fact that India will get reciprocal access, which is no doubt something our enterprises should try and benefit from. But let us be clear

[5] https://cfo.economictimes.indiatimes.com/news/policy/india-opens-government-bids-to-us-firms-a-new-era-in-foreign-procurement/121373271

on the latter. One recent study points out[6] that despite the UK being a member of the WTO Government Procurement agreement, over 90% of its contracts get awarded to UK's own companies, 2.7% to EU companies and less than 1% to outside the EU. So running high expectations on this score may not be realistic.

## Two aspects of particular importance

Two further comments are however necessary here. One, it is hoped that in the FTA/BTA negotiations underway with the EU and US, as also with other countries in the future, the government will not further widen this window but allow the same sectors with similar conditionalities to be open for them as well so that the best and most competitive offers are secured for the segments opened up.

Secondly, the minimum of 20% content from the partner country appears too low since it can then be combined with content from other cheap suppliers, including from non-market economies, who may have excess capacities to offload. In certain other FTAs, the 'rules of origin' provision in the government procurement chapter is 'Each Party shall apply to covered procurement of a good the rules of origin that it applies in the normal course of trade to that good'. The question is, do we consider 20% content as adequate for this purpose?

## Standards and other regulatory aspects

India's Press Release merely states that non-tariff barriers have been suitably addressed in the FTA to ensure free flow of goods and services and do not create unjustified restrictions to India's exports. Similarly, the chapter summaries provided in the UK government website also carry no specific noteworthy elements.

One key omission here from the Indian perspective is the absence of any reference to remedies from possible introduction of a new import carbon pricing mechanism that the UK plans to effect from 2027, on the lines of the European Union. If indeed there is no mechanism agreed upon in the India-UK FTA as to how imports of items like steel, aluminium, ceramics etc., from India will be dealt with post 2027, it is to be hoped that there is at least a provision for 'rebalancing' of market access concessions in the FTA should UK proceed with its carbon taxing initiative. India's exports of these items to the

[6] https://wtocentre.iift.ac.in/workingpaper/CWS_WorkingPaper_84.pdf

UK in recent years have been to the tune of USD 1 bn annually and, what is worse, more items could get added to its coverage.

As it presently stands, there appears every likelihood that the UK will proceed with its carbon taxing mechanism and also align it with the EU scheme. In The Common Understanding reached between the two sides at the recent EU-UK summit meeting held on May 19, an important aspect of the Renewed Agenda agreed upon[7] is for the EU and UK to work together to reach agreement to link the UK Emission Trading Scheme and the EU Emission Trading System. India may need to closely follow developments on this score and also take it up with the EU under our ongoing FTA negotiations with it.

## Intellectual Property Rights

While the Press Release by India makes no reference at all to this topic, the information given in the UK government website talks of India going 'far beyond' India's precedent in FTAs (recent FTAs that have chapters on IPR are those with the UAE and EFTA). Since details given are few, there are more questions here than answers.

In the Chapter summary on this subject, the UK government website mentions that the FTA will secure improvements to patent procedures in India to reduce the administrative burden, speed up processes and lock in commitments that provide for transparency and legal certainty in the patent system. It is to be hoped there have been no commitments made on patent term, or relating to prevention of 'ever-greening' of patents that exist in our legislation. The website also does not make any mention of TRIPS plus commitment made by India on data protection or trade secrets, an issue of particular concern to India's pharmaceutical sector.

There is a reference, however, to India committing to engage on aspects of copyright and related rights addressing the rights of UK creators, right holders and consumers, and that India will also conduct an internal review of its copyright terms of protection. It is not elaborated to what end. Perhaps these may become clearer only when the full text of the FTA is released.

On Geographical Indications (GIs), it is mentioned that UK will have the ability apply for India's highest standards of protection for all UK GIs listed for

[7] See paras 34-45 of the document accessible at https://assets.publishing.service.gov.uk/media/682afb7002662c6f8ec243ef/UK_EU_Summit_-_Common_Understanding.pdf

protection in the FTA. Presumably, India has also included its list of GIs for full recognition by the UK side.

## Digital trade

Beginning with the India-UAE CEPA, India is now more open to having a chapter on digital trade in its FTAs, although the provisions of that FTA were on a best endeavour basis and without the availability of dispute settlement procedures. It is not clear how the chapter on this topic is structured in the India-UK FTA, but there are three specific aspects highlighted in the UK government website which are worth noting:

- Businesses will be protected from the forced transfer of their source code (this would be a new commitment by India not found in earlier FTAs - normally we should be making this commitment only if we are reasonably confident that we have the technical capability to ensure, without knowing the source code, that the imported item will meet our security, safety and consumer protection standards. Also, the importance of the source code issue is underlined by the ongoing discourse on the IAF's Rafale jets );
- Provisions on cross border data flows and data localisation will allow the UK the opportunity to negotiate these rules with India when India agrees to similar provisions with other partners; and
- FTA does not affect UK's high standard of data protection and any transfer of personal data will still be protected.

## Other topics included under the FTA

As a first for India, the India-UK FTA will comprise close to thirty chapters covering a number of additional issues including anti-corruption, innovation, labour, environment, subsidies, state owned enterprises, trade and gender and good regulatory practices. It will be interesting to see which are in the form of 'best endeavour' clauses and which are of a more mandatory nature subject to dispute settlement. Chapter summaries provided do not carry enough information to make a comment on these commitments.

## Double Contribution Convention

It has been agreed by both sides, as part of the FTA package, that both countries will also sign a 'Double Contribution Convention' (CDC) that will effectively allow Indian workers who are temporarily in the UK and their employers to be exempted from paying social security contributions in the UK for a period of three years. The Indian Press Release notes that this will lead to significant gains for the Indian service providers and enhance their competitiveness in the UK market and benefit a large number of Indians working in the UK.

There can be little doubt that this is a significant win for India after our CEPA with Japan enabled India to arrive at a bilateral social security agreement with that country. NASSCOM has particularly applauded its inclusion in the India-UK FTA, saying that it addresses a long-standing issue for Indian IT and services firms. It further states that with this FTA India aims to leverage its strengths in high-quality service delivery while unlocking new market opportunities, signalling a new era of bilateral trade and innovation with the UK. This is to be seen against also the statistic that a quarter of all UK software and IT projects in 2024 originated in India. Of course the DCC not just covers employees in the IT or services sectors, but in all areas.

## Concluding note

1. An FTA negotiation is a give and take and understandably there will be some wins, and some areas where we could not get the other side to agree. But in its final form, it should show a balance of interests. In that sense, the India-UK FTA may pass the test, although for a final word we may need to await the full details, in particular on auto quotas, government procurement, standards, IPRs and other non-tariff issues.

2. On market access, India has given UK the best available access for now, extending to 85% tariff elimination and reductions/TRQ access in an additional 5%. These include TRQs on autos and significant concessions on alcoholic beverages. Also, government procurement has been opened up, beyond the India-UAE CEPA, although to what extent is not yet clear. The UK too has reciprocated, allowing duty free access with 99% tariff elimination even if there may be disappointment on lack of access for refined milled rice and sugar, as extended by the UK to its CPTPP partners.

3. The finalisation of a DCC is a very welcome move. It would have been even better if we had finalised mutual recognition for qualifications/licenses to practice in a few areas of interest to us.

4. It also needs recognition that Indian companies have become substantial investors in the UK, as may be seen from Box 3. Trend wise, it is seen that while the UK FDI stock in India has shown a downward trend in the last couple of years, it is the reverse in respect of Indian companies' investments in the UK. India is the second largest FDI origin country in the UK for the last three years. Two aspects, therefore, need focus. One is to

ensure a good bilateral investment protection agreement. This is still under negotiation. Secondly, India may also need to look carefully at how to attract British investments into India and reverse the declining trend. The FTA should be made to work for a significant revival of interest of British investors in India's growth story.

### Box 3: India-UK FDI flows

As per UK statistics, the stock of FDI from the UK in India in 2023 was £17.4 billion accounting for 0.9% of the total UK outward FDI stock. This was 13.1% or £2.6 billion lower than in 2022.

On the reverse, the stock of FDI from India in the UK was £13.1 billion which accounted for 0.6% of the total UK inward FDI stock. This was 28.5% or £2.9 billion higher than in 2022.

In 2024, India remained the second largest origin country for FDI in the UK for the third consecutive year, contributing 8% of all projects. A quarter of all UK software and IT projects in 2024 originated in India. India was also the 12th largest contributor to European FDI projects as a whole in 2024, with UK securing 50% of all projects in Europe.

As per DPIIT maintained statistics, the UK is the sixth largest investor in India accounting for a cumulative inflow of USD 35.65 bn from April 2000 to December 2024. DPIIT figures do not, however, indicate outflows or net inflows.

As per the Department of Economic Affairs, the UK is the fifth largest outward FDI destination that has attracted USD 20.06 bn from India cumulatively from April 2000 to February 2025.

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