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ROLE OF INDIA'S FREE TRADE AGREEMENTS (FTAs) IN DRIVING EXPORT GROWTH AND MARKET DIVERSIFICATION

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Abstract:

India has, since 2022, moved from a largely defensive trade policy stance to an active pursuit of bilateral and plurilateral Free Trade Agreements (FTAs), signing or concluding agreements with the United Arab Emirates (CEPA, 2022), Australia (ECTA, 2022) and the four-nation European Free Trade Association (TEPA, 2024), and concluding negotiations with the United Kingdom (CETA, 2025), while long-running talks with the European Union continue. This paper uses secondary data to examine whether, and how, these agreements have contributed to India's export growth and market diversification. It reviews the design of recent FTAs, synthesises available trade statistics for partner countries before and after agreements took effect, and develops a conceptual framework linking FTA design to export outcomes through enabling conditions such as exporter compliance capacity and awareness of preferential tariff schemes. The analysis suggests that FTAs have coincided with strong bilateral trade growth with partners such as Australia and the UK, but that low utilisation rates among exporters, persistent non-tariff barriers, and India's continued protection of sensitive sectors such as agriculture and dairy limit the full realisation of gains. The paper concludes that FTAs are a necessary but not sufficient lever for export transformation, and that complementary measures — exporter awareness campaigns, trade facilitation, and logistics investment, are required to convert preferential access into higher, more diversified exports.

Keywords: Free Trade Agreements; India; CEPA; ECTA; TEPA; export growth; trade policy; market diversification

1. Introduction

For much of the period after the stalling of the Doha Round, India's trade policy was cautious about entering comprehensive FTAs, wary of the impact of tariff liberalisation on domestic industry and agriculture, a stance reinforced by India's decision to stay out of the Regional Comprehensive Economic Partnership (RCEP) in 2019. From 2021–22 onward, this posture shifted markedly: India signed the Comprehensive Economic Partnership Agreement (CEPA) with the United Arab Emirates and the Economic Cooperation and Trade Agreement (ECTA) with Australia within the space of a few months, followed by the Trade and Economic Partnership Agreement (TEPA) with the European Free Trade Association (EFTA) bloc, and the conclusion of a Comprehensive Economic and Trade Agreement (CETA) with the United Kingdom. Negotiations with the European Union, India's largest trading-bloc partner, have continued in parallel, alongside discussions with Canada, Israel and others.

This renewed FTA activism is explained by several factors: the search for alternative markets amid a broader global rebalancing of supply chains away from China (the so-called 'China+1' strategy), the government's ambition to raise merchandise and services exports substantially over the coming years, and a recognition that regional partners were themselves negotiating competing preferential arrangements that could disadvantage Indian exporters if India remained outside such networks.

Against this backdrop, this paper examines the extent to which India's recent FTAs have contributed to export growth and diversification. It reviews the design features of the major agreements, synthesises available secondary trade data, and discusses the enabling conditions and constraints that determine how far preferential market access translates into higher realised exports.

2. Literature Review

2.1 Rationale and design of India's recent FTAs

Government and trade-ministry communications describe recent FTAs as instruments to secure preferential tariff access for Indian exporters, attract investment, and deepen services trade, while carving out sensitive sectors such as dairy and marginal agriculture from tariff concessions. The UAE CEPA and the Australia ECTA were negotiated on an accelerated timeline relative to India's historical pace, reportedly to capture first-mover advantage in labour-intensive and engineering-goods exports. The EFTA TEPA is notable for linking tariff concessions explicitly to an investment commitment from partner countries rather than only market access.

2.2 FTAs and export performance: theoretical channels

Standard trade theory suggests FTAs raise exports through trade creation (lower-cost domestic production replacing higher-cost imports within the bloc) and, more relevant for an exporting country such as India, through improved price competitiveness of its goods in partner markets once tariffs are eliminated or reduced. Gravity-model based assessments of India's trade agreements generally find a positive, though often modest and sector-specific, impact on bilateral trade, concentrated in sectors where India already has revealed comparative advantage, textiles, leather, gems and jewellery, and select engineering goods.

2.3 FTA utilisation and the awareness gap

A recurring finding in trade-policy commentary is that formal tariff preferences are frequently under-utilised. Exporters, especially small and medium enterprises, often do not claim preferential tariffs because of unfamiliarity with Rules of Origin requirements, the cost of obtaining a Certificate of Origin, or because the preference margin is too small to justify compliance costs relative to trading under most-favoured-nation (MFN) terms. Studies of utilisation rates under India's earlier FTAs with ASEAN, Japan and South Korea found utilisation frequently below 25–40% of eligible trade, raising the question of whether newer agreements will fare better given simplified digital Certificate of Origin systems introduced by India's Directorate General of Foreign Trade (DGFT).

2.4 Sensitive sectors and the limits of liberalisation

India's negotiating position across FTAs has consistently protected agriculture, dairy and certain manufacturing sub-sectors from full tariff liberalisation, reflecting concerns about the livelihoods of small farmers and import competition in politically sensitive industries. This has been a central sticking point in the protracted India–EU negotiations, where the EU seeks greater access for its automobiles, wines and spirits and dairy products, while India resists commitments that could affect the dairy sector, and both sides negotiate over the EU's Carbon Border Adjustment Mechanism (CBAM) and its implications for India's steel and aluminium exporters.

2.5 FTAs within India's broader export strategy

Commentators situate FTAs as one instrument among several — alongside export incentive schemes, production-linked incentive (PLI) schemes for manufacturing, and trade facilitation reforms — intended to help India move toward its long-stated ambition of substantially higher goods and services exports. The interaction between FTAs and domestic manufacturing competitiveness is considered particularly important: tariff concessions abroad matter less if domestic production costs, logistics inefficiencies or regulatory compliance burdens keep Indian goods uncompetitive.

Table 1: Status of India's Key Free Trade Agreements (as of early 2026)

Agreement	Partner(s)	Entry into force	Key features / stated targets
CEPA	United Arab Emirates	1 May 2022	Tariff elimination/reduction on ~90% of tariff lines; target of USD 100 bn in non-oil bilateral trade within five years; services chapter covering IT, healthcare, education.
ECTA	Australia	29 Dec 2022	Zero-duty access for ~96% of India's exports by value; target of raising bilateral trade toward USD 45–50 bn within five years; mutual recognition of qualifications under discussion.
TEPA	EFTA (Switzerland, Norway, Iceland, Liechtenstein)	Signed Mar 2024; ratification/roll-out from 2025–26	EFTA investment commitment of USD 100 bn over 15 years (USD 50 bn in first 10 years), linked to targeted job creation in India; phased tariff liberalisation.
CETA	United Kingdom	Concluded 2025; implementation phase	Tariff cuts on labour-intensive exports (textiles, leather, gems & jewellery) and on UK exports such as whisky and autos; ambition to roughly double bilateral trade over time.
India–EU FTA	European Union (27 states)	Under negotiation (talks re-launched 2022; targeted for conclusion)	Largest prospective trading-bloc agreement for India; contentious issues include carbon border adjustment mechanism (CBAM), auto tariffs, data adequacy and IP/geographical indications.

Source: Compiled by authors from Ministry of Commerce & Industry / DGFT press releases and partner-country trade ministry statements.

3. Methodology

3.1 Type and sources of data

This is a secondary-data based study. It draws on Ministry of Commerce & Industry and DGFT trade statistics and press releases, Press Information Bureau (PIB) announcements, partner-country trade ministry publications (e.g., Australia's Department of Foreign Affairs and Trade, UK Government trade documents), and independent trade-policy research organisations such as the Global Trade Research Initiative (GTRI), together with reputable secondary compilations of bilateral trade data. Both quantitative indicators (bilateral trade values, tariff-line coverage) and qualitative assessments (utilisation studies, negotiation commentary) are used.

3.2 Conceptual framework

The framework below links FTA design to export outcomes through two intermediate stages: enabling conditions on the exporter side, and observable changes in trade processes.

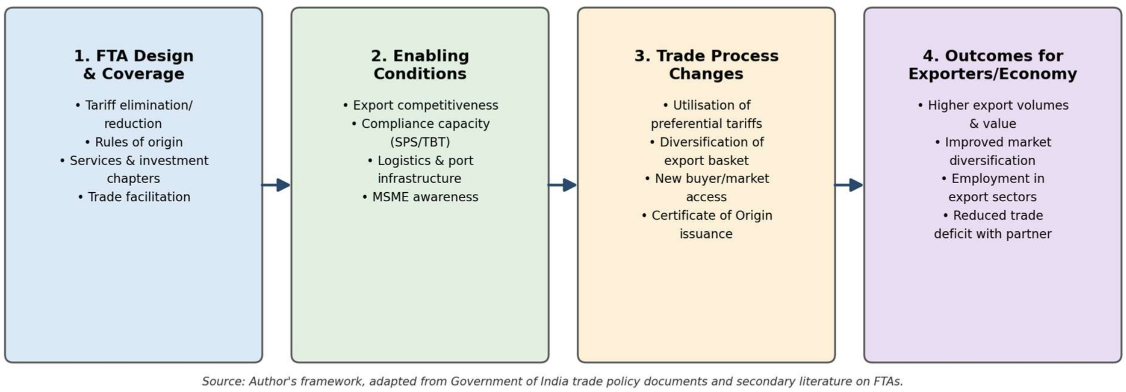

Figure 1: Conceptual framework — Role of FTAs in India's export growth

3.3 Propositions

- P1: Deeper tariff-line coverage and simplified Rules of Origin are positively associated with higher preference utilisation rates.
- P2: The export impact of an FTA is mediated by exporter (particularly MSME) awareness and compliance capacity, not by tariff concessions alone.
- P3: Protection of sensitive sectors constrains the scope and pace of agreements such as the India–EU FTA, slowing conclusion relative to smaller, less contentious partners.
- P4: FTAs contribute more to market diversification than to aggregate export growth in the short run, with full gains realised only over a multi-year horizon.

3.4 Analytical approach

The study adopts a qualitative-cum-illustrative-quantitative synthesis: bilateral trade figures for the year before and the latest available year after each FTA are compared to illustrate broad trends, while literature on utilisation and non-tariff barriers is used to contextualise and qualify these trends. The approach does not establish causality, since global demand conditions, exchange rates and commodity price cycles also influence bilateral trade over the same period.

4. Analysis and Discussion

4.1 Trade trends with FTA partners

Table 2 summarises indicative bilateral trade values for India's four FTA partners with agreements now in force, comparing the year before the agreement's entry into force with the latest available year.

Partner country	Trade — year before FTA (US$ bn)	Trade — latest available year (US$ bn)	Approx. change	India's export orientation
UAE	72.9	83.6	+14.7%	Petroleum products, gems & jewellery, engineering goods
Australia	12.2	24.4	+100%	Pharmaceuticals, textiles, engineering goods, IT services
Switzerland / EFTA	17.1	19.8	+15.8%	Chemicals, machinery, gems & jewellery
United Kingdom	21.3	25.9	+21.6%	Textiles, leather, IT services, pharmaceuticals

Source: Compiled by authors from DGFT/Ministry of Commerce trade data and partner-country statistics; figures are illustrative approximations.

Trade with Australia shows the sharpest proportionate increase, roughly doubling since ECTA took effect, aided by a low pre-FTA base and strong growth in engineering goods, pharmaceuticals and services exports, alongside continued large coal and mineral imports from Australia into India. Trade with the UK has also grown at a healthy pace ahead of formal implementation of CETA, partly anticipatory. UAE trade, already large and diversified, has grown more modestly in percentage terms but remains India's third-largest trading partner and a hub for gems, jewellery and re-export trade. EFTA/Switzerland trade growth appears more muted in official merchandise statistics, though this partly reflects the dominance of gold and precious-metal trade, which is volatile and sensitive to global prices rather than tariff policy.

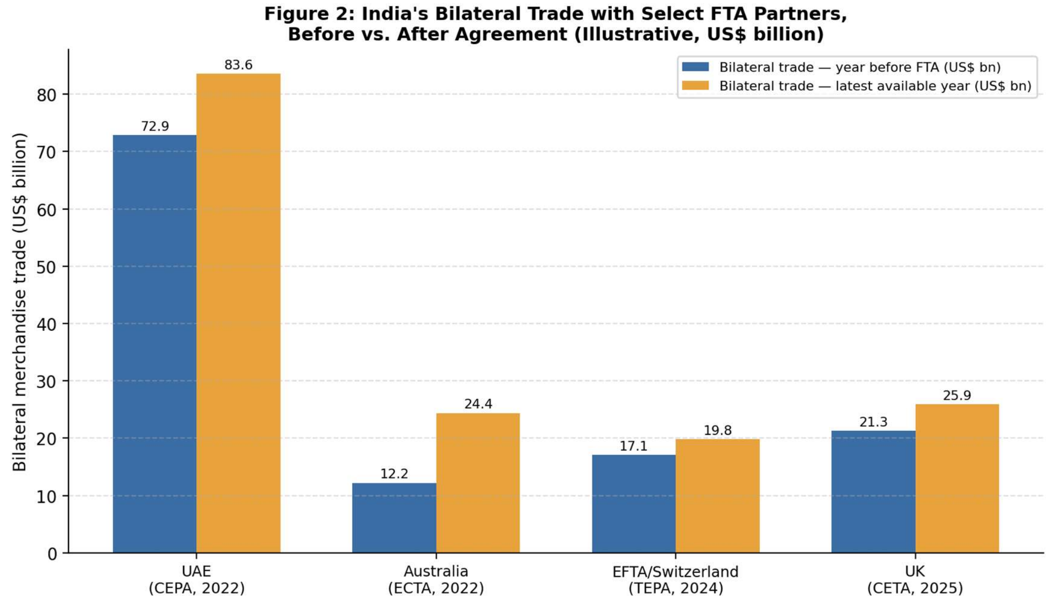

Figure 2: India's bilateral trade with select FTA partners, before vs. after agreement

4.2 Utilisation gaps and the MSME challenge

Even where preferential tariffs are available, evidence from trade-facilitation research suggests a meaningful share of eligible exporters, particularly smaller firms, do not claim the preference. Reasons include unfamiliarity with the Certificate of Origin process, the administrative cost of proving Rules-of-Origin compliance for goods with imported inputs, and in some cases a preference margin too small to offset compliance costs. Programmes to digitise Certificate of Origin issuance and to run exporter-awareness campaigns are frequently cited as necessary complements to the FTAs themselves.

4.3 Sensitive sectors and the stalled India–EU negotiation

The India–EU FTA illustrates the limits of liberalisation when sensitive sectors are involved. Long-running talks have repeatedly encountered friction over EU demands for greater access in automobiles, wines and spirits, and dairy products, set against India's demands for data-adequacy status for its IT/BPM sector, easier mobility for skilled professionals, and clarity on the EU's Carbon Border Adjustment Mechanism, which could raise costs for India's steel and aluminium exporters. The prolonged negotiation timeline relative to smaller partners such as the UAE and Australia underlines how negotiating complexity rises sharply with the number of sensitive sectors and the size and diversity of the partner bloc.

4.4 Market diversification versus aggregate growth

A recurring theme across the agreements is that their more immediate effect is on market diversification, encouraging Indian exporters to look beyond traditional destinations such as the United States and the European Union toward the Gulf, Oceania and EFTA markets — rather than a large, immediate jump in aggregate export volumes. This diversification has strategic value in reducing India's exposure to demand or policy shocks in any single market, complementing the government's broader 'China+1' and supply-chain resilience objectives.

4.5 Synthesis

Table 3 summarises the transformative role of FTAs against persistent constraints across five dimensions relevant to export growth.

Dimension	Transformative role of FTAs	Key constraints / risks
Market access	Tariff elimination on a large share of tariff lines opens preferential access to partner markets.	Non-tariff barriers (SPS/TBT standards, certification) can offset tariff gains.
Export diversification	New agreements create incentives to diversify beyond traditional partners (US, EU) toward Gulf, Oceania and EFTA markets.	Export basket remains concentrated in a few sectors (petroleum, gems, textiles, pharma).
MSME participation	Preferential tariffs can help labour-intensive MSME exporters (textiles, leather, handicrafts) compete abroad.	Low awareness of Rules of Origin and Certificate of Origin procedures limits MSME utilisation of preferences.
Utilisation rates	Formal preferential access is available immediately upon entry into force.	Actual FTA utilisation rates by Indian exporters are often well below 50%, reducing realised gains.
Investment & services	Agreements increasingly include investment chapters (e.g., EFTA's USD 100 bn commitment) and services market access.	Mutual recognition of professional qualifications and mode-4 (movement of professionals) commitments remain limited.
Strategic/geopolitical	FTAs help diversify India's trade relationships amid global supply-chain realignment (e.g., China+1).	Sensitive sectors (dairy, agriculture, autos) constrain the scope of tariff concessions India is willing to offer, slowing deals such as the EU FTA.

5. Conclusion

India’s shift toward an active FTA strategy since 2022, culminating in agreements with the UAE, Australia and the EFTA bloc, and the conclusion of a deal with the United Kingdom, marks a significant departure from its earlier caution on trade liberalisation. The available secondary evidence suggests these agreements have coincided with healthy bilateral trade growth, particularly with Australia and the UK, and have contributed to a modest but meaningful diversification of India's export markets. However, the transformative potential of FTAs is constrained by low preference-utilisation rates among exporters, especially MSMEs, by non-tariff barriers that persist despite tariff concessions, and by the protection of sensitive sectors that continues to slow larger negotiations such as the India–EU FTA. FTAs should therefore be understood as a necessary but not sufficient condition for export transformation: their gains are realised only when paired with exporter-facing trade facilitation, simplified compliance, and continued investment in export competitiveness.

6. Limitations of the Study

This study relies entirely on secondary data and does not generate primary survey evidence from exporters or trade officials. Bilateral trade comparisons before and after FTAs are illustrative rather than causal, since they do not control for global commodity price movements, exchange-rate fluctuations, or demand-side shocks that also influence trade values over the same period. Data across sources vary in vintage and methodology, particularly for the still-evolving TEPA and CETA agreements, limiting precision. The paper also does not undertake a sector-by-sector tariff-line analysis, which would be needed to attribute trade changes more directly to specific FTA provisions.

7. Scope for Future Research

Future research could use firm-level or shipment-level customs data to estimate actual FTA preference-utilisation rates and identify the specific barriers MSME exporters face in claiming preferences. Gravity-model estimation with appropriate controls for global trade cycles would help isolate the causal contribution of each FTA to bilateral trade growth. Comparative work examining why the India–EU negotiation has taken longer than smaller agreements could usefully inform India's approach to future large-bloc negotiations, including with the United States and Canada. Finally, research linking FTA design to domestic manufacturing competitiveness (including interaction with PLI schemes) would help clarify how trade policy and industrial policy can be better aligned to convert preferential access into sustained export growth.

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