What will be impact of India-U.K. trade deal? | Explained

How long was the free trade agreement in the works? When is it expected to be signed and implemented? Which are the sectors likely to benefit apart from textile and automobiles? What are the challenges for agriculture and medium and small enterprises?

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Britain's Prime Minister Sir Keir Starmer attends a bilateral meeting with India's Prime Minister Narendra Modi. | Photo Credit: Reuters

The story so far: After nearly three-and-half years, India and the U.K. finally gave their nod to a Free Trade Agreement (FTA) this week. Commerce Minister Piyush Goyal said the pact would set a new benchmark for "equitable and ambitious trade between the two large economies". Though the fineprint has not yet been made public, domestic industry has welcomed the announcement, amid concerns about the potential impact on agriculture and medium and small enterprises (MSMEs). The deal is likely to be signed after three months, and will take over a year to implement.

Why is the deal significant for both nations?

The U.K. is India's 16th largest trading partner and India is the U.K.'s 11th largest partner. Their bilateral trade is about $60 billion with India enjoying a positive trade balance, which is expected to double by 2030, according to the Indian government's estimates. The new trade deal, as assessed by the British government, would increase the bilateral trade by another $34 billion. The agreement comes in the backdrop of global trade reeling under uncertainty triggered by U.S. President Donald Trump's tariff regime.

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What are the expectations from the FTA?

While the details are yet to be published, the British government said it would benefit from India agreeing to slash tariffs on 90% of the product categories for export, with 85% of them becoming "tariff-free" within a decade. Further, basing its assessment on 2022 prices, it estimated that $534 million worth in tariffs would be saved when the deal is enforced. On the other hand, New Delhi expects to benefit from tariffs being eliminated on 99% of its export product categories. It expects an increase in export opportunities for sectors such as textiles, leather, footwear, auto parts, engineering as well as gems and jewellery, among others. The British government mentioned about curtailed tariffs on automotives, whisky and gin, sectors which had been hit by Mr. Trump's tariffs. Alcoholic beverages from the U.K. will now have a 75% tariff rate, from the present 150%. This would be further reduced to 40% within a decade. Tariffs on automobile exports too stand reduced from over 100% to 10% albeit with a certain quota based on price for conventional combustion engine vehicles and capacity for electric vehicles.

With respect to services, India has secured an exemption for Indian workers temporarily in the U.K. and for their employers from paying social security contributions for three years under the Double Contribution Convention. Immigration was among the major points of contention during negotiations with the erstwhile Conservative government. The FTA will also seek that visa processes remain "transparent" and no "unnecessary" obstacles are created in professional travel.

How has domestic industry responded?

Indian industry is upbeat about the announcement and expects a spike in exports. Textiles are among the major items of export to the U.K. Mithileshwar Thakur, secretary-general at the Apparel Export Promotion Council (AEPC), told The Hindu that exports are expected to "grow exponentially". He said India would now enjoy duty-free access to U.K. markets like their main competitors Bangladesh and Vietnam. On competition, he clarified that there was "hardly any" import from the U.K. in this sector.

The Indian automobile industry feels it will benefit from the deal. C.S. Vigneshwar, president, Federation of Automobile Dealers Associations (FADA), contended that the FTA would ensure the the U.K. has better access to India's premium (vehicle) segment markets, and Indian makers would serve the U.K.'s mass segment markets. "We do not expect the U.K.'s mid-segment cars to be competitive to Indian vehicles because the cost of production and labour is lower in India," he stated.

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Kirit Bhansali, chairman, Gems and Jewellery Export Promotion Council (GJEPC), in a social media post projected a rise of $2.5 billion of exports within the next two years in the sector, thus, culminating in bilateral trade doubling to $7 billion.

Are there concerns?

There are concerns in primarily two sectors, agriculture and MSMEs. Vijoo Krishnan, general secretary of the All-India Kisan Sabha, points to a previous FTA with Sri Lanka having led to a price crash in similar products produced by Indian farmers like spices and tea, among others. He also cites the case of the lasting impact of the ASEAN FTA's impact on rubber which stood at ₹230/kg in 2011 compared to ₹170/kg in 2025. He observes that FTAs have paved "unequal" paradigms for Indian farmers and MSMEs. "The Indian farmers hold small lands, a good number of them being less than five acres. This is not the case with advanced countries," he stated. Mr. Krishnan further points to the World Trade Organization's contention about minimum selling price in India. "Given the number of farmers we have, the cumulative amount of subsidies is huge though per-capita pales in comparison to European farmers. Also, WTO considers the base price from the late 1980s," he states, elaborating, "there has been much escalation of costs since then and farmers must be given commensurate increase in prices, incentives and subsidies".

Ajay Srivastava, founder of the India-based Global Trade Research Initiative, said permitting foreign firms to compete on an equal footing in India could weaken the policy tools India needs to build local capacity in vital sectors such as defence, renewables, health systems and infrastructure. "It also threatens the ecosystem of MSMEs that rely on protected access to government contracts to stay viable," he observes.

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On public procurement, the U.K. held that the FTA would allow their companies to bid for government procurement contracts on "better terms and with greater access to the relevant information to support their bids". According to Dinesh Abrol, adjunct faculty at the Transdisciplinary Research Cluster on Sustainable Studies at JNU in Delhi, this could lead to a growing import dependency.

The other unaddressed aspect in the FTA concerns the U.K.'s Carbon Border Adjustment Mechanism (CBAM) which would impose a "carbon price" on goods bearing greenhouses being imported into the country. This would be of particular consequence to Indian aluminium and steel exports. Although unrelated to the U.K., Mr. Goyal warned that India too would retaliate with likewise taxes should Europe go ahead with the carbon pricing mechanism, suggesting a cause for potential uncertainty.

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