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The India-UK Free Trade Agreement: Agreement:

Strategic Imperatives and
Corporate Calculus in a
New Economic Paradigm



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Executive Summary

The India-UK Comprehensive Economic and Trade Agreement (CETA), concluded on May 6, 2025, and formally signed on July 24, 2025, represents a watershed moment in post-colonial economic diplomacy. This landmark agreement eliminates tariffs on 99% of Indian exports to the UK while providing zero-duty access for 85% of UK exports to India, creating an estimated USD 6.4 billion annual GDP boost for the UK and USD 10.8 billion for India by 2035. The negotiations, which commenced in January 2022, spanned 14 rounds of discussions during which the UK witnessed four changes of Prime Minister before Keith Starmer of the Labour Party finally signed the agreement. Indian Commerce Minister Piyush Goyal described this as the "Gold standard of all FTAs".

The Geopolitical Context: Beyond Trade Statistics

Pre-Agreement Economic Baseline

The negotiations began against specific macroeconomic parameters: India's GDP stands at USD 4.19 trillion, while the UK's GDP is USD 3.16 trillion. Bilateral trade totalled USD 57 billion, with India exporting USD 36 billion to the UK and importing USD 21 billion from the UK. Notably, 62% of UK services are procured from India, making the UK India's third-largest trading partner.

Trade Composition Analysis

UK exports to India primarily comprise non-ferrous metals, metal ores and scrap, mechanical power generation equipment, beverages, tobacco, and general industrial machinery. **Indian exports to the UK** include refined oil, clothing, telecom and sound equipment, medical and pharmaceutical products, and iron and steel.

Strategic Realignment in a Multipolar World

The disruption of supply chains during the pandemic brought home to Western companies the risks of over-dependence on China, and the need for a 'China-plus one' policy. India, after exiting the China-dominated Regional Comprehensive Economic Partnership (RCEP), has been looking at trade deals with the UK, Australia, the EU, and, until recently, Canada, to hold off China in the region.

For the UK, Prime Minister Keir Starmer referred to it as the 'biggest and the most economically significant trade deal that the UK has made since leaving the EU'. The agreement's significance transcends bilateral metrics, as when signed, the India-UK FTA will serve as a template for an agreement with India's second-largest trade partner, the European Union (EU).

Comprehensive Deal Structure: The 30-Chapter Framework

The India-UK FTA is officially titled the Comprehensive Economic and Trade Agreement (CETA) and constitutes a comprehensive 30-chapter pact that reflects the evolving nature of modern trade diplomacy. The agreement begins with a preamble and general provisions establishing a commitment to inclusive, sustainable, and rules-based trade.

Preamble Provisions

The preamble emphasises inclusive economic growth by highlighting support for SMEs, women, disadvantaged communities, and forest dwellers of India. It recognises the importance of digital trade, temporary movement of professionals, and bilateral cooperation in innovation and regulatory frameworks. Importantly, the preamble affirms each country's right to regulate in pursuit of public welfare objectives such as health, environmental protection, national security, and labour rights.

Tariff Structure and Staging: Beyond the Headlines

Indian Export Benefits

99% of Indian exports to the UK will enjoy **zero-duty access**, benefiting sectors including footwear, leatherware, gems and jewellery, marine products, textiles, apparel, seafood, engineering goods, and agriculture. This unlocks USD 6.5 billion in new trade opportunities in the short term.

UK Export Advantages

85% of UK exports to India will enjoy zero duty access, with UK tariffs on luxury cars dropping from 100% to 10% under Tariff Rate Quota, whisky tariffs reducing from 150% to 75% to 40% over 10 years, and medical devices experiencing sharp tariff reductions. Other benefiting products include electrical machinery, aerospace products, food, chocolates, salmon, lamb, and phased reduction of cosmetics and toiletries.

Sensitive Sector Protections

The tariff reduction schedule follows a carefully planned approach where some goods become duty-free immediately (EIF: Entry into Force), while others see gradual reductions over 5, 7, or 10 years. Certain sensitive sectors, particularly automobiles and alcoholic beverages, have been excluded from blanket liberalisation through Tariff Rate Quotas (TRQs) and Minimum Import Price (MIP) mechanisms.

Specific protections include:

- British internal combustion engine (ICE) passenger cars allowed into India at reduced duties from 110% to 10%, but only within tightly capped annual quotas that reduce over time

- India is excluding EVs priced under USD 53,200 from duty concessions to shelter its emerging domestic EV industry
- Alcoholic beverages facing MIP conditions, ensuring only premium imports priced at a minimum of USD 5/litre or USD 6/750ml benefit from gradual tariff reductions from 150% to 75% over ten years

Revolutionary Rules of Origin: The "Coequal" Innovation

This represents a **first-of-its-kind innovation**. Exporters can now qualify for FTA benefits by meeting **any one** of three origin criteria—value-added, tariff shift, or wholly obtained. This flexibility aligns with modern supply chains, especially in auto and electronics, reduces compliance friction through digital self-certification, and prevents misuse with risk-based audits and safeguards.

Simplified Compliance Mechanisms

The agreement introduces several trade-facilitating measures:

- **Exemption of small consignments:** Indian exporters sending consignments below USD 1,330 to the UK are exempt from submitting origin documentation
- **Self-Certification:** The FTA allows self-certification of origin and recognises importer knowledge as valid proof
- Robust authentication and verification protocols to prevent misuse, such as routing third-country goods through minor processing

Services Sector: The Strategic Powerhouse

The UK is India's **#2 destination for IT exports**, and the FTA amplifies this relationship comprehensively.

Key Service Sector Wins

Visa liberalisation for Indian professionals across IT, healthcare, and legal sectors, with enhanced mobility for IT professionals, Yoga instructors, chefs, musicians, and intra-corporate movements. **Recognition of Indian degrees** in architecture, accounting, and engineering represents a significant soft power achievement.

Double Contributions Convention

Social security exemption saves USD 4,000 per worker annually through the Double Contribution Convention, though this has been protested by UK conservatives and citizens, requiring monitoring to see if this provision remains in the final deal. The agreement introduces a Double Contributions Convention ("DCC"), ensuring that employees temporarily posted between the United Kingdom and India for up to three years will only pay social security contributions in their home country.

Service Sector Coverage

The agreement focuses on services including IT, legal, consulting, education, and financial services through dedicated commitments. The services sector, representing India's greatest competitive advantage, receives substantial benefits under the agreement. The India-UK FTA includes commitments covering IT/ITeS, financial services, legal services, education, and professional consulting. These provisions are expected to increase India's software services exports by approximately 20% annually once fully implemented.

Sectoral Impact Analysis: Winners and Strategic Imperatives

Automotive Sector: Strategic Inflection Point

The FTA slashes tariffs on UK luxury cars from **100% to 10%** under quota, but this isn't about flooding Indian roads with Bentleys. **Indian component makers** like Motherson Sumi and Bharat Forge gain **zero-duty access** to UK OEMs. **EV and two-wheeler exports**—TVS, Bajaj, Royal Enfield—get a cost advantage in the UK market, while **UK brands** like Triumph and Norton benefit from smoother entry into India.

This deal **rebalances the auto trade**, moving India from being a parts supplier to a **design-to-delivery partner**.

Textiles and Manufacturing

However, the British Parliament has been warned in a report that granting zero-duty access to Indian textiles under the FTA could bring stress on Least Developed Countries such as Bangladesh. This creates both opportunity and reputational risk for Indian textile exporters.

Government Procurement Access

UK Government procurement worth USD 160-200 billion, of which USD 10.6-13.3 billion is from outside, becomes accessible. UK suppliers with more than 20% UK origin receive class 2 preference, but this will impact EU and US trade agreement negotiations. The risk of the UK-China combination must be covered by security clauses.

For the first time, UK businesses will have guaranteed and unprecedented access to India's vast procurement market, covering goods, services and construction. UK businesses will be granted brand new access to approximately 40,000 tenders with a value of at least USD 50.6 billion a year.

Digital Trade and Innovation Framework

The agreement includes a **commitment to digitally delivered services, digital infrastructure, including provisions of cross-border data flow, forced submission of codes, online campaign ease out, etc.**

The India-UK FTA incorporates forward-looking provisions on digital trade, reflecting both nations' commitment to facilitating 21st-century commerce. Key digital trade commitments include Recognition of electronic contracts and digital signatures. These provisions aim to make cross-border commerce more cost-effective and accessible, particularly benefiting small and medium enterprises seeking to participate in international trade.

The agreement covers telecommunications, digital trade, and intellectual property rights, particularly mutual recognition of geographical indications for food products, spirits, handicrafts, and more.

Economic Impact Projections: Modelling the Future

Short-term Projections

By 2030, bilateral trade is projected to double to USD 112 billion. By 2035, UK GDP is expected to rise by USD 6.4 billion annually, while India's GDP will increase by USD 10.8 billion annually. Labour-intensive sectors—textiles, gems, auto parts—could generate **1M+ jobs** in India.

Long-term Growth Targets

India's exports are projected to increase by 15% annually till 2030, contributing USD 1 billion per year. India plans to export USD 2 trillion by 2030 and USD 5 trillion by 2040, making the FTA a small but significant boost. The FTA is projected to increase bilateral trade between India and the UK, potentially doubling it to USD 112 billion by 2030.

Specific Sectoral Projections

- Gems and jewellery exports projected to double to USD 2.5 billion in two years
- Engineering goods exports are expected to reach USD 7.5 billion by 2030, also doubling
- Seafood exports expected to double to USD 200 million by next year

India's exports to the UK are projected to reach USD 68 billion by 2030, while imports from the UK are projected to reach USD 44 billion. Looking toward 2040, the UK government estimates that the FTA will generate an additional USD 20.9 billion in UK exports to India and USD 13.1 billion in UK imports from India, representing incremental growth beyond the 2030 baseline targets.

Comprehensive Risk Assessment Matrix

FTA Utilisation Risk

If we don't train MSMEs and exporters, this deal will sit on paper-, as warned by CBI. This represents the primary implementation risk requiring immediate attention.

Trade Deficit Concerns

The UK's high-value exports (e.g., medical devices) could outpace India's gains unless we scale up. As India is the more protectionist of the two countries, the removal of tariffs and nontariff barriers will benefit the UK more than India.

Environmental and Regulatory Risks

Carbon Border Tax: The UK's green tariffs could **neutralise our cost advantage** in sectors like steel and ceramics. India is seeking exemptions from a proposed UK carbon tax, set to come into force in 2027. That has yet to be resolved.

Non-Tariff Barriers: Regulatory divergence in food safety, pharma, and digital standards could become the new moat. In manufacturing, too, Indian products face high rejection based on conformity assessments and technical requirements.

Regulatory Harmonisation Risks

"**Soft Law becoming Hard Law**" from outside the FTA, other laws can come in the name of harmonisation, which India can't avoid. Similar demands will emerge in the Indian market, potentially causing India to fall behind.

Intellectual Property Intensification

IP Restriction: The tension between imitation vs IP restriction presents challenges. Many developed countries followed imitation pathways before implementing IP restrictions. The UK historically imitated Indian fabrics without IP restrictions. India should not accept IP laws being imposed outside TRIPS, which already exists within the WTO.

Advanced IP chapter, safeguarding of patents, copyrights, trademarks, and GIs, are key cornerstones of the agreement. The India-UK FTA incorporates strong disciplines to tackle non-tariff barriers through Sanitary and Phytosanitary (**SPS**) measures, Technical Barriers to Trade (**TBT**), and Good Regulatory Practices (**GRP**) chapters.

Implementation and Compliance Challenges

The agreement requires higher improvements of products, infrastructure, quality, cost of production reduction, and compliance. India has the highest average tariffs of any G20 economy, with some products facing duties above 100%. It is ranked as the eighth most restrictive services market by the Organisation for Economic Co-operation and Development (OECD) and has an uncertain regulatory environment.

Strategic Opportunities and Corporate Action Frameworks

Government Procurement: The Transformative Gateway

India will now open federal-level government contracts worth over **USD 50.6 billion annually** to British companies, with UK firms eligible to bid on individual contracts above the threshold of USD 24 million. Additionally, Indian MSMEs can now participate in UK government procurements.

Partnership and Collaboration Opportunities

In addition to the FTA, both countries reinvigorated their Comprehensive Strategic Partnership into a new 'UK-India Vision 2035'. This is intended to further deepen engagement in areas of defence and security, technology, education, and people-to-people cooperation. A new Defence Industrial Roadmap was unveiled to support this initiative.

Modi also announced that six UK universities will open campuses in India after Southampton University became the first UK university to do so earlier this month.

Global Context and Future Implications

Template for Future Negotiations

The **India-US FTA** is stuck in tariff disputes, and the **India-EU deal** is crawling. Meanwhile, China's shadow looms large, and the West desperately seeks a "**China-plus-one**" strategy. **This FTA gives India a first-mover advantage**—a chance to become the **preferred partner** for Western economies seeking reliability, scale, and democratic alignment.

Modelling Uncertainties

Modelling the long-run benefits of any FTA is always open to significant uncertainty. That uncertainty increases for an FTA involving an economy as dynamic as India's. If India grows significantly faster or slower than projected during this period, or develops different sectoral strengths, this could influence the estimated impacts of the agreement.

Indeed, since 2019 (when the Global Trade Analysis Project (GTAP) model dataset was set), bilateral trade between the UK and India has nearly doubled. As such, these estimates could underestimate the ultimate impact of the FTA.

Corporate Strategic Imperatives: Sector-Specific Action Plans

For Auto CEOs

Rethink UK strategy—not just exports, but **design, R&D, and joint ventures**. The preferential access provisions create natural momentum for deeper integration with UK automotive ecosystems.

For IT & Services Leaders

Leverage visa reforms to **deepen client relationships** and **move up the value chain**. The social security exemptions and professional recognition create competitive advantages extending beyond cost savings.

For Compliance Heads

Train teams on the **coequal origin rule**—this is your competitive edge. The flexibility of these provisions can substantially reduce operational costs while maintaining preferential access.

For Policy Advocates

Push for **FTA awareness programs** and **sector-specific playbooks**. The agreement's success depends heavily on stakeholder education and capacity-building initiatives.

For Manufacturing Leaders

Companies must address quality infrastructure requirements, as Indian products currently face high rejection rates based on conformity assessments and technical requirements. Investment in compliance systems and quality certifications becomes crucial for market access.

Unresolved Issues and Future Negotiations

Several critical issues remain unaddressed. A separate bilateral investment treaty has also yet to be concluded. The FTA does not address market access for legal services, and the full benefits of the agreement will depend on effective implementation, ongoing regulatory cooperation, and sustained engagement with stakeholders.

The details of the anti-corruption and other regulatory-type chapters, in particular, will be closely watched as the legal text is finalised and published.

Conclusion: Strategic Imperatives for the New Paradigm

The India-UK FTA represents more than a trade agreement; it embodies India's strategic recalibration in the global economic order. With bilateral trade projected to reach USD 112 billion by 2030, the agreement creates transformative opportunities for companies positioned to navigate its complexities effectively and significant job creation possibilities.

The critical challenges lie in implementation: ensuring FTA utilisation, managing trade deficit risks, navigating carbon border adjustments, addressing non-tariff barriers, and balancing IP intensification with innovation capabilities. Success requires a sophisticated understanding of the agreement's provisions, proactive compliance frameworks, and strategic partnerships leveraging complementary capabilities.

As Piyush Goyal noted, this represents the "Gold standards of all FTAs", but realising its potential demands a comprehensive corporate strategy encompassing quality infrastructure, compliance systems, partnership development, and market entry strategies. The question for Indian corporate leadership is not whether to engage with the FTA's opportunities, but how quickly and effectively they can build the capabilities necessary to maximise its strategic potential while mitigating associated risks.

In an increasingly complex global economy, the India-UK FTA offers a pathway to enhanced market access, technological collaboration, and strategic positioning that few agreements have provided in recent history. The companies that master their intricacies will find themselves at the forefront of India's emergence as a major global economic power.