

FTA REPORT CARD 2026



Challenges India Can No Longer Ignore

A **GTRI** Report

June 2026



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STRONGER TRADE STRATEGY. **STRONGER INDIA.**

GTRI Report

June 2026

**FTA Report Card 2026:
Six Challenges India Can No Longer Ignore**

Global Trade Research Initiative

FTA Report Card 2026

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Preface

India's FTA network has expanded rapidly in recent years, but the results have not always matched expectations.

This report assesses the performance of India's FTAs and highlights six emerging challenges: rising trade deficits, low utilization of FTA benefits by Indian exporters, worsening inverted duty structures, relocation of manufacturing to partner countries, new carbon-related trade barriers, and growing policy obligations under modern FTAs.

As India negotiates new trade agreements, understanding these challenges is essential to ensuring that FTAs support national economic and development objectives.

We hope this report contributes to a balanced discussion on the opportunities and risks associated with India's FTAs.

Ajay Srivastava

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Highlights

1. India now has 15 FTAs in force and 9 more FTAs under negotiation, potentially covering 69 countries and over 75% of its exports.
2. Existing FTAs account for 28.5% of India's exports and 32.2% of its imports.
3. Most FTA partners already had low tariffs before the agreements, limiting export gains for Indian firms.
4. Just 20–30% of India's eligible exports utilize FTA benefits, compared with 60–70% utilization by exporters shipping to India.
5. High compliance costs and low foreign tariffs discourage Indian exporters from using FTA preferences.
6. FTAs have worsened India's inverted duty structure by making finished imports cheaper than domestically manufactured products.
7. Indian manufacturers often pay duties on inputs while competing against duty-free imports from FTA partners.
8. New-generation FTAs increasingly influence domestic policies on labour, environment, digital trade, procurement and data governance.
9. The EU's Carbon Border Adjustment Mechanism (CBAM) could erode many of the tariff benefits India secures under an FTA.
10. The report concludes that competitiveness—not tariff preferences alone—ultimately determines whether FTAs benefit India's economy.

FTA Report Card 2026

1-Increasing number of FTAs

India currently has 15 implemented FTAs covering 27 countries, while another 9 FTAs involving 42 countries are either signed, awaiting implementation, expected to be concluded soon, or under negotiation. Together, these 69 countries account for 75.3% of India's exports and 65.5% of its imports. In addition, India has 6 preferential trade agreements (PTAs) with several other partners, extending its preferential trade network further.

Caveat: The trade data in this report reflect **total trade with FTA partner countries**, not trade conducted exclusively under FTA preferences. In practice, only a small share of this trade utilizes FTA tariff concessions, while the majority continues under the **Most-Favoured-Nation (MFN)** tariff regime outside FTA provisions.

1.1-Existing FTAs

India's 15 implemented FTAs covering 27 countries account for 28.5% of India's exports and 32.2% of its imports.

- The 10 FTAs, concluded before 2012 and covering 19 countries, account for 16.6% of exports and 18.0% of imports.
- The 5 FTAs, signed since 2020 with 8 countries -UAE, Oman, Australia, Mauritius and the four EFTA members (Switzerland, Norway, Iceland and Liechtenstein), account for 11.9% of exports and 14.1% of imports.

1.2-FTAs Awaiting Implementation or Under Negotiation

India has 9 additional FTAs involving 42 countries awaiting implementation or under negotiation. Together, these countries account for 46.8% of India's exports and 33.3% of its imports.

- Two signed agreements with the UK, and New Zealand account for 3.2% of exports and 1.3% of imports-awaiting implementation.
- The European Union, comprising 27 countries, accounts for 16.5% of exports and 8.9% of imports, making it India's largest pending FTA partner-awaiting signing.
- Six ongoing FTA negotiations covering 13 countries—including the United States, Canada, Israel, Peru, the Gulf Cooperation Council members and the Eurasian Economic Union countries—account for 27.1% of exports and 23.1% of imports, the largest share among all FTA categories.

2- Six Challenges That Demand Attention

As India expands its network of FTAs, six key challenges need attention: rising trade deficits, low use of FTA benefits by Indian exporters, worsening inverted duty structures, the shift of manufacturing to FTA partner countries, European carbon tax measures, and new FTA provisions that increasingly influence domestic policies and regulations.

Let's examine how these challenges are shaping India's trade patterns, industrial competitiveness, and economic outcomes.

2.1-Rising trade deficit

Between 2007–09 (before the FTAs took effect) and 2023–25, India's trade deficit with ASEAN grew by 381%, with Japan by 318%, and with South Korea by 268%. In comparison, India's trade deficit with the rest of the world increased by 142%. Over the past three years, India's average annual trade deficit with ASEAN, Japan and South Korea has reached about \$62 billion.

India's newer FTAs are also associated with large trade deficits. In FY2025, India exported \$48.6 billion to the UAE, Australia, Mauritius and EFTA countries, but imported nearly \$100 billion, resulting in a trade deficit of over \$50 billion. As tariff cuts under these agreements deepen, the deficit may increase further.

South Asia remains the major exception, where India's trade surplus expanded from \$6.7 billion to \$20 billion during the same period.

Reasons for the high trade deficit

The difference between India's tariff structure and those of its FTA partners helps explain why imports often grow faster than exports after FTAs.

Most of India's FTA partners are already open economies with low tariffs. Average MFN tariffs are close to zero in Singapore and below 4% in Japan, Australia, Malaysia and the UAE. In contrast, India's trade-weighted MFN tariff is about 12.6%, with rates ranging from zero to 150%.

As a result, when India cuts tariffs under an FTA, exporters from partner countries gain a significant price advantage in the Indian market. A 50% tariff reduction, for example, can translate into a major cost advantage over competing suppliers.

Indian exporters, however, often gain little additional market access because tariffs in partner countries were already low or zero before the agreement.

The difference becomes even clearer when actual trade flows are examined. Almost all imports into Singapore enter duty-free under MFN rules, while more than 80% do so in Japan and Malaysia. In the EU and the UK, more than half of imports face zero customs duty. In India, however, only about 6% of imports enter duty-free under MFN treatment. As a result, FTAs often give foreign exporters a much bigger advantage in the Indian market than Indian exporters receive abroad.

2.2-Low Utilization of FTA Benefits

The same tariff asymmetry also helps explain why Indian exporters make limited use of FTAs. When MFN tariffs in partner countries are already zero, there is little benefit in exporting under an FTA. Even where MFN tariffs are low—say 1–3%—the savings are often too small to justify the costs of complying with rules of origin, certification requirements, and paperwork.

As a result, only an estimated 20–30% of India's eligible exports take advantage of FTA preferences. Many small firms prefer to avoid the compliance burden for modest tariff savings.

The incentives are very different for exporters selling to India. Since India's MFN tariffs remain relatively high, tariff reductions under FTAs can generate substantial savings. As a result, import-side utilization rates are estimated at 60–70%.

Thus, rising imports and low export-side utilization are not separate issues. Both stem from the same tariff asymmetry between India and its FTA partners.

Imports facing MFN tariffs below 5 per cent account for 100 per cent of imports in Singapore, 91.9 per cent in Japan, 86.4 per cent in Malaysia, 73.9 per cent in Vietnam and 66.5 per cent in South Korea. In India, the corresponding figure is only 28.3 per cent. Where tariffs are already negligible, exporters often choose not to use FTAs at all. Complying with rules of origin, obtaining certificates and meeting documentation requirements can cost more than the tariff savings generated by the agreement.

The incentives are higher for exporters selling into India. Only 4.6 per cent of India's imports enter duty-free under MFN treatment, while 68.7 per cent continue to face normal customs duties. For exporters from FTA partner countries, preferential access to India can therefore translate into substantial tariff savings. The benefits generally outweigh the costs of compliance, resulting in import-side FTA utilization rates estimated at 60–70 per cent.

2.3-Worsening inverted duty structures.

An inverted duty structure arises when duties on raw materials and industrial inputs are higher than those on finished products. While this problem has existed for years, FTAs have made it harder to fix because many finished goods now enter India at low or zero duty from partners such as ASEAN, Japan, South Korea, the UAE and Australia. As a result, Indian manufacturers often pay high duties on imported inputs, especially those sourced from non-FTA countries, while competing against finished products imported duty-free under FTAs.

For example, steel and aluminium attract MFN duties of 7.5–10%, but machinery, industrial equipment and engineering products made from these materials can enter India duty-free under several FTAs. Indian manufacturers, therefore, face higher input costs when competing with tariff-free imported machinery produced with globally priced inputs.

Similar distortions exist in chemicals, plastics, rubber and textiles. Duties on inputs such as caustic soda, soda ash, polypropylene, PVC and SBR raise production costs. At the same time, many finished products in these sectors can be imported at low or zero duty. The result is a tariff structure

that protects producers of basic materials but disadvantages downstream manufacturing, making it harder to achieve higher domestic value addition and the goals of Make in India.

2.4-Outsourcing Production to FTA partner countries

An equally significant consequence of FTAs and resulting inverted duty structures is the growing incentive for firms to manufacture outside India rather than within it. When raw materials and components attract duties in India, but finished products can be imported duty-free from FTA partners, companies may find it more profitable to locate production abroad and export back to the Indian market. In such cases, FTAs effectively encourage offshore manufacturing at the expense of domestic value addition.

ASEAN countries are increasingly becoming manufacturing hubs for supplying the Indian market. Chinese companies have invested heavily in countries such as Vietnam, Thailand and Indonesia. At the same time, some Indian firms have also set up factories and joint ventures there to benefit from lower production costs and duty-free access to India under FTAs. Similar trends can be seen in electronics, steel, chemicals, plastics, consumer goods and engineering products.

When it becomes cheaper to manufacture in an ASEAN country and export duty-free to India than to produce in India, investment and jobs tend to move abroad. As a result, FTAs can encourage firms to "Make in ASEAN, Sell in India" rather than "Make in India."

Unless India's tariffs on industrial inputs are better aligned with its FTA commitments, these agreements may encourage firms to produce abroad rather than in India, weakening domestic manufacturing and supply chains.

2.5-New-Generation FTAs: Pressure on domestic laws

India's newer FTAs go far beyond tariffs and market access. Traditional FTAs focused mainly on border measures such as import duties, quotas and customs procedures, leaving countries with freedom to design their own domestic regulations and development policies. The newer generation of FTAs, however, increasingly seek to influence policy choices behind the border by introducing rules on labour, environment, digital trade, intellectual property rights (IPR), government procurement, competition policy, anti-corruption, gender, MSMEs and data governance.

At the insistence of developed-country partners, these agreements often require India to align domestic laws, regulations and administrative practices with standards designed by advanced economies. As a result, FTAs are no longer limited to reducing tariffs; they increasingly shape how governments regulate businesses, manage data, design industrial policies, support domestic industries and pursue broader development objectives. While presented as modern trade rules, such provisions can reduce India's policy flexibility, create new compliance burdens for exporters, and constrain future industrial and development strategies.

Government Procurement: Opening India, Limited Gains Abroad. Government procurement is one of the most sensitive areas in recent FTAs. While procurement was mentioned in the India–Japan FTA and opened on a limited basis under the India–UAE CEPA, the India–UK CETA marks the first time a foreign country has received large-scale, legally guaranteed access to India’s central government procurement market. UK firms can now compete for around 40,000 Indian government tenders annually in sectors such as infrastructure, healthcare, energy, and transport. They also receive access to India’s e-procurement portal, making participation easier.

Make in India Diluted. An even greater concern is that UK firms can qualify as “Class II Local Suppliers” with only 20% UK content in their goods or services. This status was originally intended to support Indian firms under the Make in India programme. By granting foreign companies similar treatment, India risks weakening one of its key tools for promoting domestic manufacturing and supporting MSMEs.

Unequal Access. The benefits are not reciprocal. Indian firms are unlikely to gain comparable opportunities in the UK procurement market, which remains difficult for foreign suppliers to penetrate. In practice, only a small share of procurement spending in Europe and the UK goes to foreign companies. This means India is opening a large market while receiving relatively limited commercial gains in return.

Risks for Public Health. The India–UK agreement also encourages the use of voluntary licensing for medicines. Critics argue that this could weaken India's ability to use compulsory licensing during national emergencies, a mechanism that has helped ensure access to affordable medicines and supported India's generic pharmaceutical industry.

Stronger Patent Protection, Weaker Generic Competition. The IPR chapter removes the requirement for patent holders to disclose how their patents are being commercially used in India. This may make it more difficult to determine whether patents are being adequately worked in the country and could delay the entry of cheaper generic alternatives.

Labour and Environmental Rules as Trade Barriers. The EU increasingly links trade benefits to compliance with labour and environmental standards. Although the objective is sustainable trade, India fears that such provisions could become non-tariff barriers. Indian exporters may have to prove compliance with detailed labour, sustainability, and due-diligence requirements to continue receiving FTA benefits. Failure to provide documentation could result in higher costs or loss of preferential access, even when products otherwise qualify under the FTA.

Data Exclusivity: A Threat to Agrochemicals and Farmers. India is also facing pressure from the EU and the United States to accept “data exclusivity” provisions. These rules would prevent regulators from relying on existing test data to approve generic versions of pesticides and agrochemicals for several years. Such provisions are not required under the WTO TRIPS Agreement and are considered “TRIPS-plus” obligations.

For India, the stakes are high for pharmaceuticals and farm chemical sectors. The country has become the world's third-largest agrochemical exporter, with exports rising from US\$1.7 billion in 2012–13 to US\$4.4 billion in 2024–25. Experience from an earlier period of de facto data exclusivity showed a sharp rise in imports and significantly higher prices for farmers. Accepting such provisions could increase import dependence, weaken Make in India, and raise agricultural input costs.

Digital Trade and Data Sovereignty. Digital trade is another emerging area of concern. India has so far accepted only limited commitments, but developed countries—especially the United States—continue to push for stronger obligations on cross-border data flows and digital governance. Another key issue in the digital sector is the risk of foregoing streams for raising revenues. India has fought against the moratorium on customs duties on electronic transmissions at the WTO, but India under pressure from the US in the trade deal to accept permanent moratorium. Such commitments could limit India's ability to regulate future technologies, including artificial intelligence, cybersecurity, data protection, and digital industrial policy.

The Bigger Concern: Shrinking Policy Space. Traditional FTAs focused mainly on reducing tariffs and expanding trade. New-generation FTAs increasingly regulate how governments design policies in areas such as procurement, healthcare, environment, digital governance, and intellectual property. For India, the concern is that while tariff gains may be modest—especially with developed countries that already have low tariffs—the regulatory obligations can be far-reaching and permanent. These commitments may gradually reduce India's ability to support domestic industry, protect public health, shape its digital future, and pursue independent development strategies.

2.6-The EU Challenge: Carbon Taxes and Regulatory Barriers

A key concern for India in the India–EU FTA is that tariff concessions may be offset by a growing number of EU regulatory measures. The most important is the Carbon Border Adjustment Mechanism (CBAM), under which the EU has started imposing carbon charges on imports of steel, aluminium, cement, fertilisers, hydrogen and related products from January 2026. The EU also plans to expand CBAM to around 180 additional steel- and aluminium-based manufactured products from 2028. Over time, a much larger share of Indian industrial exports could face carbon-related charges when entering the EU.

This creates an imbalance. While EU products may gradually enter India at low or zero tariffs under the FTA, Indian exports could face new carbon taxes and compliance costs in Europe. CBAM-related costs would eliminate the tariff benefits secured through the FTA.

CBAM is only one part of a broader EU regulatory framework. Other measures such as the Deforestation Regulation, the Foreign Subsidies Regulation and the Corporate Sustainability Due Diligence requirements impose additional compliance obligations on exporters. Together, these regulations can increase the cost of exporting to the EU and act as non-tariff barriers, particularly for MSMEs.

Unless these regulatory barriers are adequately addressed, the commercial benefits of the India–EU FTA could be significantly reduced for many Indian industries.

3-Key Lessons and Policy Recommendations

- Review tariff schedule. Most of India's FTA partners had already rationalized their tariff structures before embarking on the FTA journey, ensuring that FTA led tariff cuts did not trigger import surges or worsen inverted duty structures. India continues on FTAs without reviewing its regular tariff structure.
- Systematically eliminate inverted duty structures by reducing tariffs on industrial inputs used by domestic manufacturers.
- Strengthen domestic manufacturing ecosystems and supply chains, because competitiveness—not tariff preferences alone—is ultimately what determines whether FTAs boost exports or imports.
- Create an FTA Impact Monitoring Authority to track utilization, sectoral gains, import surges and trade deficits. It should also periodically assess the impact of regulatory changes and loss of policy space on account of FTA commitments.
- Prioritize mutual recognition of standards, testing and conformity assessment to reduce non-tariff barriers faced by Indian exporters.
- Create mechanisms for judging performance and ensuring accountability of negotiators.

The government and industry must work together to address the challenges so that FTAs strengthen India's manufacturing base instead of encouraging higher imports, overseas production, and loss of industrial capacity.

A1-India's FTA List

India's free trade agreement strategy has evolved in three distinct phases: an early wave of regional agreements before 2012, a new generation of strategic FTAs after 2020, and a broad set of negotiations now underway with some of the world's largest markets.

A-Ten First Generation FTAs (Implemented Before 2012)

India's first wave of FTAs focused largely on neighbouring countries and East Asia. Key agreements included:

- Sri Lanka FTA (signed 1998, implemented 2000)
- South Asian Free Trade Area (SAFTA) (signed 2004, implemented 2006)
- India–Nepal Trade Treaty (2009)
- India–Bhutan Trade Agreement (1972)
- Thailand Early Harvest Scheme (2004)
- Singapore Comprehensive Economic Cooperation Agreement (CECA) (2005)
- ASEAN–India FTA in Goods (implemented between 2010 and 2011)
- South Korea Comprehensive Economic Partnership Agreement (CEPA) (2010)
- Japan CEPA (2011)
- Malaysia CECA (2011)

These agreements laid the foundation for India's integration with South Asia and East Asia and today cover 19 countries.

B-Five Second Generation FTAs (Implemented After 2020)

After nearly a decade of limited FTA activity, India resumed negotiations with a stronger focus on strategic partners, investment and supply-chain integration.

The new generation agreements include:

- Mauritius Comprehensive Economic Cooperation and Partnership Agreement (CECPA), implemented in 2021
- UAE Comprehensive Economic Partnership Agreement (CEPA), implemented in 2022
- Australia Economic Cooperation and Trade Agreement (ECTA), implemented in 2022
- EFTA Trade and Economic Partnership Agreement (TEPA) with Switzerland, Norway, Iceland and Liechtenstein, implemented in 2025
- India–Oman CEPA implemented in 2026

Together, these agreements represent India's shift toward deeper economic partnerships with investment-rich and high-income economies.

C-The Next Wave: Under Negotiations

I-Two recently concluded agreements are awaiting entry into force:

- India–UK FTA
- India–New Zealand FTA

II-Europe Nears the Finish Line

Negotiations with the European Union have been completed and the agreement is widely expected to be implemented soon. An India–EU FTA would cover all 27 EU member states, making it India’s largest trade agreement by export value.

III-Major Negotiations Underway

India is simultaneously negotiating trade agreements with several large economies and regional blocs:

- United States (Bilateral Trade Agreement pathway)
- Israel
- Canada
- Peru
- Gulf Cooperation Council (GCC) — Bahrain, Kuwait, Qatar and Saudi Arabia
- Eurasian Economic Union (EAEU) — Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia

A Trade Network Covering Most of India’s Exports

India now has 15 implemented FTAs covering 27 countries, while another 9 agreements are pending implementation or under negotiation, covering 42 additional countries. Together, these 69 countries account for more than three-quarters of India's exports, highlighting how central FTAs have become to India's trade strategy.

A2-Table-India's FTA Performance Snapshot

India's FTA Trade Profile						
FTA Status	FTAs	Countries	Imports (US\$ bn)	Exports (US\$ bn)	Share in India's Exports (%)	Share in India's Imports (%)
Implemented (Pre-2012)	10	19.0	136.3	73.8	16.6	18.0
Implemented (Post-2020)	5	8.0	106.6	52.8	11.9	14.1
Total Implemented FTAs	15	27.0	242.8	126.7	28.5	32.2
Signed, pending implementation	2	2	10.0	14.4	3.2	1.3
Likely to be signed/implemented soon	1	27	67.3	73.5	16.5	8.9
Under negotiation	6	13	174.4	120.5	27.1	23.1
Total Pending / Under Negotiation	9	42	251.7	208.4	46.8	33.3
Total FTA-linked countries	24	69	494.5	335.1	75.3	65.5
Countries with no FTAs	—	171	260.8	110.0	24.7	34.5
India Total	—	240	755.3	445.1	100.0	100.0
©-GTRI-Source: GTRI analysis based on DGCI&S data for CY2025						

A3-Table-India's trade with 3 Important FTA partners: ASEAN, Japan, S. Korea

India's trade with 3 Important FTA partners	US\$ Billion				Percentage
	Average Exports	Average Imports	Average Trade Deficit	Increase in Deficit (2007-09 vs 2023-25)	% Increase in Deficit (2007-09 vs 2023-25)
ASEAN					
Pre-FTA (2007-09)	17.1	23.9	6.8		
Post FTA (2023-25)	39.3	72.3	33.0	26.1	381.4
S. Korea					
Pre-FTA (2007-09)	3.3	7.3	4.0		
Post FTA (2023-25)	6.1	20.8	14.7	10.7	267.9
Japan					
Pre-FTA (2007-09)	3.4	6.8	3.4		
Post FTA (2023-25)	5.6	19.9	14.2	10.8	317.9
Rest of World					
(2007-09)	144.4	228.9	84.5		
(2023-25)	385.9	590.6	204.7	120.2	142.2
©-GTRI-Source: GTRI analysis based on WITS data					

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About Global Trade Research Initiative

GTRI aims to create high-quality and jargon-free outputs for governments and industry on issues related to trade, technology and investment from the perspective of development and poverty reduction.

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Feedback

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