



Beyond tariff liberalization- A comprehensive assessment of the determinants of successful free trade agreement (FTA) in India

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Abstract

With globalisation every nation involves in cross border trade. Every trade agreement includes certain clauses to benefit all the members involved. So primarily we have seen that most of these agreements focused on reducing trade barriers to boost exports and after analyzing the post FTA performance of India it was observed that there are other restrictions too which hamper trade gains. So, we used qualitative and descriptive approach to understand what are other factors which contribute to the success of FTAs for India. We found that there is high cost of logistic in India, low FTA utilization rate, complex regulations and less focus on non-traditional sectors. Most importantly agreements should not only concentrate on exports but also on capital inflows through foreign direct investment which helps in reducing balance of payment deficits. Our government has taken steps towards capturing FDI as stated in INDIA EU deal but there are few obstacles like absence of judicial system, investor protection provisions which can deviate the achievement of goal. Recent trade deals such as India UK, India EU, India and GCC countries touched all these challenges and promised to manage them. It will be too early to say if India will be able to overcome these issues or not.

Keywords: FTA, NTB, TBT, SPS, MFN, GVC, OECD, ASEAN, SAFTA, MERCOSUR ROO, BTA, RCEP

Introduction

Free trade agreements (FTA) are arrangements between two or more countries which agree to reduce or eliminate tariff and non-tariff barriers on trade between them. FTAs normally cover trade in goods (such as agricultural or industrial products) or trade in services (such as banking, construction, trading etc). FTAs can also cover other areas such as intellectual property rights (IPRs), investment, government procurement and competition policy etc (Indian Trade Portal). There are different types of trade agreements that provide preferential market access to the member countries like preferential trade agreements (PTA), free trade agreements (FTA), and Comprehensive Economic Cooperation Agreements (CECA) and Comprehensive Economic Partnership Agreements (CEPA).

India's overall services exports grew 73 percent during last few years. Using our competitive advantage agreements with East Asian nations (such as South Korea, Japan, Singapore, Malaysia and ASEAN) have provisions for services (GOI 2020) ^[21]. However, services trade has not significantly expanded through these agreements (Chanda & Tokas 2020) ^[21]. India's services trade with the UK has grown by about 100 percent over the past ten years with a major rise in various consulting services (DIT (UK) 2021). The UK Free Trade Agreement is expected to have a significant impact on services trade which would help India to gain more in sectors such as law, accounting, education, healthcare and research and development. In FY 2025 ^[3]-26 India's overall trade deficit (goods and services combined) stood at \$119.30 billion. The merchandise trade deficit was \$333.19 billion. However, India had huge services surplus of \$213.89 billion which helped offset this gap to some extent. India has strong competitive edge in IT services and it can focus more on various technologies such as artificial intelligence, nanotechnology and robotics (RBI 2022). As of February 2026 India, maintains preferential trade access

with over 50 countries and has recently concluded landmark agreements with the United Kingdom (2025), the European Union (2026) ^[4], the EFTA bloc (2025), Oman (2025) and is pursuing negotiations with a wide range of partners including Canada, the GCC countries and the Eurasian Economic Union. India and the European Union deal is seen as the 'mother of all deals' which will be a comprehensive FTA covering goods, services, investment, digital trade, and sustainable development (Immanial Yamarthi 2026) ^[6].

Recently signed FTAs like Australia India also address the non-tariff barriers (NTBs) such as TBTs and SPS measures (Singhania 2023). India's history with NTBs has shown that the use of such measures (both by India and its trade partners) has hampered trade potential (Kibria 2022). NTBs comprise of different types of trade barriers including customs procedures, rules of origin, local value content requirements, import or export licensing, market access regulation including topics such as tax questions, technical standards or sanitary and phytosanitary measures. It is difficult to measure them but their impact on trade are estimated to be more important than that of tariffs. These barriers are created to protect local industries or manage trade imbalances but they can also influence both importers and exporters as a result affecting the nation's economies.

The use of lower post FTA preferential tariffs is usually higher for imports compared to exports because India has very high MFN import tariffs. This should ideally help Indian businesses by keeping their costs lower. However, this does not happen because of strict customs administration. The big difference between India's MFN tariffs and preferential FTA tariffs makes it easier for people to commit duty fraud which leads to more customs checks, delays, and corruption. Also, the increased focus on tax compliance across Customs, GST, and Income Tax has given tax officials more discretion leading to more harassment of small importers and exporters and as a result

there is lower use of FTAs (Ritesh Singh 2026) ^[15]. Indian firms should be supported through certification assistance, compliance infrastructure, and export advisory systems (Meghna 2026).

There is difference in trade advantage to India and other countries of Asia due to India's weak performance in global value chains. We have seen evolution in international trade from trade liberalization to global production networks in countries such as China, South Korea, and Japan, whose development trajectories India seeks to incorporate. The Organisation for Economic Co-operation and Development (OECD) estimates that GVCs now account for about 70% of world trade. (Krishna 2024) ^[2].

Literature Review

1. Hardeep Singh Puri (2017)

This paper highlights various reasons which created problems in reaching the trade goals.

India's foreign trade policy aimed to increase trade from 2.1% to 3.5% by 2020 ^[19]. But our manufacturing sector's share had fallen to 16.2% in 2015 due to land scarcity, power shortages, low productivity and rising labor costs. The negotiations of FTAs were badly structured as they created inverted duty structures that discouraged value added production and exports.

2. Vibhanshu Shekhar (2007)

The paper found that the India ASEAN summit, India Singapore, defence cooperation on terrorism and maritime security were successful during 2007. Though there were some challenges like even after various rounds of negotiation there was not any final agreement which could cover tariff elimination and less rules of origin. The author recommended few points for better implementation of these trade agreements such as

- a. Better connectivity to ease the transport
- b. Stabilised financial institution which could assist in currency swap
- c. Measures to be taken to protect piracy and maritime terrorism
- d. Encouraging domestic firms to use the terms of FTAs

3. Kaushal (2022)

The objective of the paper is to understand whether bilateral and regional trade agreements help India in increasing exports. For this it uses a quantitative approach and applies stochastic frontier gravity model with panel data of India's exports from 2008 to 2018. The results show that these have great impact on trade efficiency specifically ASEAN and SAFTA and on the other hand APTA has no effect. The limitation of the study was the impact of specific sector and other factors which influence exports like digital trade, sustainability and value chains.

4. Kumari (2025) ^[10]

This study argues that bilateral trade has risen by 63% between India and MERCOSUR countries. The PTA has increased India's exports to MERCOSUR by 67.5% and India's imports from MERCOSUR by 58.4%. India's trade with non-MERCOSUR countries has increased by 90% after the agreement.

5. Institute of peace and conflict studies (2020)

This paper examines first five years of India's Act East policy (AEP) and found that there is six-year gap in

announcement of the policy and its execution. From this we can conclude that there is lack of preparedness for trade liberalization. It is observed that there is not significant shift in volume of trade after this policy. Imports have increased faster than exports from ASEAN. The Look East Policy 1992 became the AEP at the ASEAN India Summit in Myanmar in 2014. AEP has expanded India's geographic trade area but lacked due to slow implementation and chinese competition.

6. Ranjan

This paper evaluates the India EU trade deal which promises \$100 billion investment over a period of 15 years. The deal brought some novelty in trade trade agreement by quantifying FDI inflows and job creation. It also gave an advantage to India to withdraw concession in goods trade if FDI inflow donot materialize as it has to face long bureaucratic process. It has emphasized on certain factors which would pose as disturbances in achieving this goal:

- a. There is absence of investment protection commitments which could lead to high regulatory risk while operating in India.
- b. No protection to foreigners in tax policies like happened in the case of Nestle due to absence of double avoidance tax agreements
- c. Inefficient Indian judicial system which fails to resolve disputes.

7. Yamarthi (2026) ^[6]

The paper moves us through different phases from post independence (1947-1991) era to strategic agreements (2021). India also got a landmark deal with UK CETA which will give duty free access to Indian exports. This provides a competitive edge to India over other rival countries. With this Bangladesh's dominant position based on LDCs in garments will not harm India. Pharmaceutical sector is expected to perform well given zero duty access and regulatory provisions. The paper has also identified certain risk factors like non-tariff barriers, import competition for dairy, agriculture and autos. It concluded that there are opportunities for growth if firms master rules of origin compliance and custom process.

8. Yang, et al (2024)

This paper studies the relationship between how FTA networks affects domestic value added in exports through structural gravity model of 60 countries from 2007 to 2017. It found that trade creation will have an impact on domestic value added and selection of FTA should consider the structure of wider FTA network. The effect of the study is heterogeneous in nature across countries, regions and sectors. The gap lies in trade agreements have focused on bilateral characteristics hugely.

9. Verma (2025)

The author analyses the India EU agreement and its impact on India US trade through descriptive cum analytical approach. And it was concluded that it is likely to have a positive impact. Access to EU countries will give negotiation power to India against the US on the issues like tariffs, market access and non-tariff barriers. It also emphasizes trade diversification and balancing tool as India expands largely in Europe. This deal is the biggest in terms of volume and global value chain for India.

10. Bhurat, *et al* (2025)^[3]

This study uses a gravity model to understand the effect of India's FTA on trade flows from 2000 to 2023^[1]. It observed that trading partners GDP and relative distance matter for exports other than factor endowment. One more factor which is common language plays important role for imports. It provided a way forward to FTAs that it should include commerce, investment, labour and environmental standards.

11. Krishna (2024)^[2]

This paper studies preferential trade agreements of India of the two decades and found that its impact has been modest. India's imports with FTA partners were 13.3% of total imports in 2007 while it was 11.8% in 2017 and exports to them has risen subtly from 13.7% in 2007 to 14% in 2017. The reason behind this was firstly the the agreements did not cover substantial terms in favour of India. Secondly the terms were subject to partial implementation under WTO enabling clause. Thirdly rules of origin are complex which did not helped India in realizing benefits of trade agreements. However, trade deficits with bilateral partners declined from 12.6% of total deficit in 2007 to 7.5% in 2017.

12. Solanki (2026)^[8]

The paper finds that the exports of India are adversely affected by tariffs imposed by US and also because of the delays in signing BTA due political factors. India has signed many trade agreements after 2021^[20] and given the size of our economy it has gained negotiation power with partners. After withdrawing from RCEP, India signed bilateral agreements with 14 out of 15 RCEP members excluding China. But bilateral agreements would not generate economies of scale. It suggested to focus on trade route through regional transport and infrastructure corridors to boost trade. India also prioritized domestic economic reforms in 2025^[10] to monitor the flow of cheap imports but it resulted in supply chain disruptions.

13. Pandey *et al* (2023)^[1]

It observed that India had positive trade balance only with South Asian partners while other agreements were not that fruitful. Where India's exports were stuck at USD 300 billion for a decade other partners accounted 20% of trade approximately. India exports majority of low value goods like gems, jewelry and refined petroleum and maintained only 10% for high technology goods. Indian exporters are not able to utilize FTA terms due to complex rules of origin, lack of awareness and administrative delays. Also, the logistics cost is high ranging around 13 to 14%.

14. Chintan Research Foundation (2026)^[4]

This paper argues that India has seen overall growth in services sector between 2011 and 2023^[1] from CAGR of 9.26% to 7.97%. Sectors like telecommunication, computer and information has huge potential and are growing fast. But factors like non-tariff barriers and behind the door barriers create hindrances to scale up trade.

Objectives of Research

1. To estimate if tariff reduction is sufficient to boost India's trade.

2. To understand various variables that affect India's trade and how they can be managed.
3. To know how Domestic compliance and standards contribute to expensive trade.

Research Problem Questions

1. How does reduction of Non-Tariff Barriers (NTBs) in FTAs affect trade performance of India?
2. Does FTAs provide market access for import and export of services?
3. How does domestic value addition (DVA) in traded goods impact the effectiveness of FTAs in enhancing India's Gross domestic product (GDP)?
4. What is the impact of domestic reforms such as lowering the cost of doing business, infrastructure development and trade facilitation measures on India's trade?
5. How does integration through Global Value Chains (GVCs) under FTAs enhance India's share in international trade?
6. Is there a strong link between exports and FDI from a trading partner based on coverage of policies mentioned in the concerned FTA?

Methodology

This study uses a qualitative research design to examine the impact of India's trade Agreement with other countries. Our research relies on secondary data from concerned authorities and other reliable sources. These consist of official publications and policy statements issued by the Ministry of Commerce and Industry, Government of India, Reserve Bank of India, World Trade Organization, Directorate General of Commercial Intelligence and Statistics (DGCIS), World Integrated Trade Solution (WITS), UN Trade and Development (UNCTAD), OECD Trade in Value Added Database. The research also values articles, reports and constructive comments by recognized field experts and scholars working in the areas of international trade. The approach used is descriptive as well as analytical in nature. We will evaluate the outcomes year on year before incorporating the terms such as reducing non-tariff barriers, standard regulations, logistics cost and focusing more on high tech service sectors and trade corridors and after incorporating them.

Conclusion

India's Free Trade Agreements (FTAs) have shown mixed performance, some of them resulted in increase of exports and some did not. We have seen that earlier FTAs used to focus only on tariff reduction as a strategy to gain advantage from trade agreements. However, our study found that new FTAs are now including relaxation of non-tariff barrier, rules of origin and custom compliance. Evaluation of the performance of various agreements shown that India should focus on

- a. Export of specific services utilizing its comparative advantage like automotive components, chemicals, electrical items, nano technology.
- b. Intensive margin of FTAs which means coverage of other important policies and not just tariff reduction.
- c. Bringing domestic reforms in the form of tax laws, standard compliance, documentation.
- d. Diving deep into global value chain to integrate with other economies.

- e. Need to have strong negotiation with trading partners for unilateral tariff reduction, inverted duty structures and simple rules of origin.
- f. Building infrastructure corridors to reduce the cost of transportation.

All these factors determine whether India will have greater share in international market and become a developed nation.

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