

May 08, 2025

India-UK Free Trade Agreement

The economic landscape between India and the United Kingdom is entering a new era of significant transformation following the formalization of their Free Trade Agreement (FTA) on May 6, 2025. This landmark pact promises to reshape the flow of goods, services, and investments between the two nations. By committing to substantial tariff liberalization, with India agreeing to reduce or eliminate duties on 90 percent of its tariff lines for UK imports and the UK offering near-complete duty-free access to Indian goods, the FTA aims to unlock and deepen the strategic partnership between these two major global economies.

India-UK Bilateral Trade

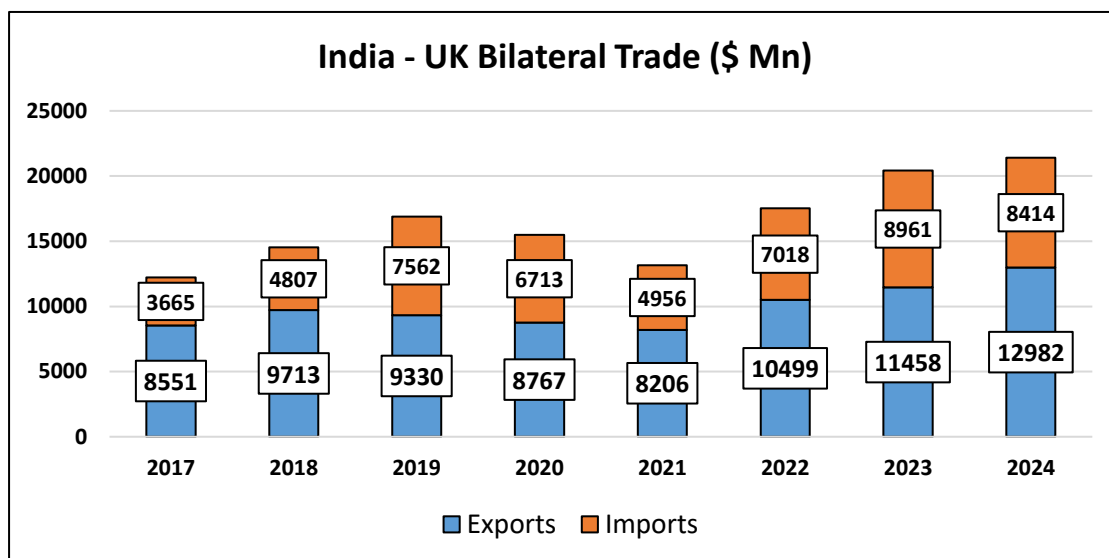
India's trade with UK significantly increased during 2017 to 2024 to \$21.4 billion at an annual rate of 5-8%. India has consistently run a trade surplus with the UK during this period. According to the latest full year data available for 2024, India's exports to the UK were approximately \$12.98 billion, while imports were \$8.4 billion.

Table 1: Perspectives about the FTA from India and United Kingdom

	India perspective	UK perspective
Tariff coverage	99% of tariff lines representing 100% of trade value to enter UK at zero duty providing a massive opportunity for labour intensive goods	India to remove/reduce duties on 90% of UK tariff lines (92% by value) which is a cost saving of 400 million pounds from day 1, rising to 900 million Pounds by the 10 th year.
Priority sectors	Indian exporters in textiles, gems and jewellery, marine products, leather & footwear, toys, sports goods, engineering goods, auto parts and organic chemicals to gain	For the UK whisky, gins, lamb, autos, advanced manufacturing, medical devices, clean energy equipment and access to the huge government procurement market of Centre and States.
Services and mobility	Most ambitious services commitments under IT/ITES, financial sector, professional and education sector along with greater mobility for Indian professionals including for categories like yoga instructors and chefs.	Binding Most Favoured Nation (MFN) status across 156 sub-sectors, lock-in of 74% FDI cap on insurance, mutual recognition framework and creation of short-term innovation mobility visas.
Social security emphasis	Calls for 3year exemptions from UK social security contributions that will make Indian service providers significantly more competitive	Treats the Double Contributions agreement as an adjacent instrument; avoids double additional insurance for assignments less than 3 years.
Macroeconomic impact	Bilateral trade expected to double by 2030 from the current levels and the deal is	Estimates an addition of 4.8 bn Pounds to UK GDP and 2.2bn Pounds to UK wages each year in the long run and 25.5bn Pound boost to bilateral trade.

	expected to be a game changer in India's growth path.	
Strategic impact	Casts the FTA as India emerging as a trusted trade partner and boosting its integration into global value chains	Stresses alignment with UK's climate and gender chapters. Positions the FTA as UK's biggest post-Brexit win.

Chart 1: Brief snapshot of UK-India trade over the years



Source: Ministry of Commerce, Govt of India

Detailed list of sectors and market shares are given as Annexure 1 and 2. India's exports to the UK represented 2.97% share of its total exports and Imports constituted a share of 1.24%. India's trade with UK (exports + imports) constituted 0.54% of GDP for the FY24 which shows the huge untapped potential for bilateral trade to expand further between the two nations.

Analyzing the India-UK Trade Data (Apr-Mar 2024) in the backdrop of the India-UK FTA:

India's Exports to the UK (Apr-Mar 2024):

India's exports to the UK are relatively diversified, spanning various sectors from manufactured goods to raw materials and consumer products. Apparel and Clothing Accessories constitute a significant share and stands out with a value of \$1328.86 Mn constituting a share of 9.14%. This highlights UK's significance to Indian textiles and garments which is also highly labour-intensive.

With exports of \$1807.82 Mn and a 5.25% share, **electrical Machinery and Parts** indicate India's growing prowess in the engineering goods segment. The FTA's focus on reducing tariffs on machinery could further boost this sector.

Footwear, Paper, Leather, and Pharmaceutical Products also show significant promise to benefit from the UK market. The tariff reduction consequent upon the FTA in these sectors will likely enhance India's competitiveness in those sectors.

Toys segment will also benefit. Though lower in absolute terms (\$75.05 Mn), UK's 14.34% share in our total toys exports suggests a strong reliance on the UK market and FTA might provide a boost

to this sector. Moreover, the government of India also plans to bring toys under the PLI scheme which will further benefit the sector.

Table 2: An indicative list of the industrial goods that will attract zero duty under new FTA,

Commodity	Existing Duty Range	Percentage share in India Export	Agreed duty under FTA
Clothing	12%	18.25%	0%
Base Metal	10%	12.12%	0%
Footwear	16%	10.35%	0%
Paper	10%	10.31%	0%
Leather	16%	8.17%	0%
Chemicals	8%	7.75%	0%
Headgear	12%	7.30%	0%
Furniture	4%	5.33%	0%
Electrical Machinery	14%	5.25%	0%
Textiles	12%	4.60%	0%
Ceramics	12%	4.35%	0%
Wood	10%	3.33%	0%
Plastics	6%	3.25%	0%
Rubber	6%	2.97%	0%
Glass	12%	2.02%	0%
Gems & Jewellery	4%	1.86%	0%
Mechanical Machinery	8%	1.37%	0%
Auto	18%	1.37%	0%
Clocks	6%	1.33%	0%
Arm and Ammunitions	2%	0.62%	0%

Source: Ministry of Commerce

The FTA has implications for the financial services sector also. It says that financial service providers from UK should be treated on an equal footing and at par with their Indian counterparts. This could mean that a UK bank desirous of having its presence in India should be permitted to do so. The benefits of reciprocity could be extended to Indian banks wishing to expand presence in UK as well. Similar removal of restrictions on insurance sector is also envisaged. There are also proposals for easier cross border payment mechanisms between the two countries which could indirectly benefit banks.

India's Imports from the UK (Apr-Mar 2024):

India's imports from the UK appear more concentrated in specific high-value sectors. Beverage sector leads with imports of \$315.69 Mn and a significant 20.47% share of India's total beverage imports. The FTA's tariff reductions on alcoholic beverages like whisky are directly aimed at increasing UK exports in this category. These will become cheaper in India.

Printed Books, Essential Oils, Perfumery, and Natural or Cultured Pearls and precious Stones also figure high in the list of imports from UK.

Tariff reductions on Iron and Steel, Nuclear Reactors, Boilers and Machinery (industrial goods), suggest reliance on UK expertise in these sectors. However as UK insists on minimizing polluting content and may think of levying a carbon border adjustment tax (CBAM) like the EU, iron and steel sector may need further negotiations,

Duties on automobiles and parts will be brought down to 10% within a decade, subject to import quotas.

Implications of the FTA:

India-UK FTA is likely to have the following implications:

- **Benchmark for ensuing FTAs:** The FTA could serve as a benchmark for pending FTAs with the EU, Australia and set the contours of the India-US bilateral trade agreement in terms of deliverables.
- **Boost to remittances from UK:** Removal of social security contributions for 3 years through double contribution avoidance might help to improve remittances from the UK. Assuming UK's FY24 share, its contribution to NRI remittances in FY25 could be around \$15 bn which may receive a further boost. This will also help Indian IT companies to save cost and help to improve their margins, thereby boosting their competitiveness.
- **Financial services sector:** Banking and insurance sectors will be required to be provided with equal treatment by both countries. A British banking or insurance firm may find it easier to expand its presence in India. Similarly Indian financial services firms might be able to expand their footprint in the UK. This means reciprocal treatment in financial services which has been a long-standing issue between India and the UK.
- **Services:** As the FTA covers services also, the facilitation of easier mobility in streams like IT/ITES, finance and education will benefit professionals and students. For IT sector which earns the second largest share of its revenue from the UK, this is a significant development which compensates the adverse impact of US tariffs to a certain extent. UK has a share of 7% in Indian IT exports and almost 60,000 Indian tech professionals are expected to benefit. The FTA also focusses on delivery of digital services in areas like architecture, engineering, computing and telecommunications.
- **A big Boost to Indian Textile and Apparel Exports:** The elimination of tariffs on Indian textiles and garments will provide a significant competitive advantage, potentially leading to a substantial increase in exports to the UK, capitalizing on the already strong existing trade. This will mitigate any potential adverse impact due to US reciprocal tariffs.
- **Increased UK Exports of Alcoholic Beverages and automobiles:** The phased reduction of tariffs on UK spirits, particularly whisky, is expected to significantly increase their import volume and market share in India. Automobiles, especially luxury vehicles like Jaguar and Rolls Royce will see price reduction due to progressive tariff cuts.
- **Potential Growth in Other Sectors:** Leather, paper, pharmaceuticals, machinery and equipment, footwear, sports goods, toys, marine products and certain manufactured

goods, could see further growth due to reduced tariffs. Sensitive sectors like dairy products where no tariff concessions are proposed, will not see any direct impact from the FTA.

However, it has to be ensured that goods traded between UK and India has sufficient local content to fool proof from Chinese goods finding their way to take advantage of lower duties. In toto, the FTA is a major win for India as we have secured duty free access to UK market on 99% of our tariff lines. Agriculture and dairy products have been excluded from the FTA which is a bone of contention in our negotiations on similar FTAs with EU and Australia. Any give away on these sectors in subsequent FTAs could negate advantages gained from the FTA with UK.

Annexure -I

India Imports from UK (\$ Mn)				
HSCode	Commodity	UK Imports Apr-Mar-2024	Total Imports Apr-Mar-2024	%share of UK imports
22	BEVERAGES, SPIRITS AND VINEGAR.	315.69	1,541.85	20.47%
49	PRINTED BOOKS	60.58	301.38	20.10%
33	ESSENTIAL OILS, PERFUMERY	414.52	2,099.46	19.74%
47	PULP OF WOOD OR OF OTHER FIBROUS CELLULOSIC MATERIAL; WASTE AND SCRAP OF PAPER OR PAPERBOARD.	161.63	3,137.29	5.15%
76	ALUMINIUM AND ARTICLES	326.64	6,864.14	4.76%
72	IRON AND STEEL	761.82	18,645.68	4.09%
30	PHARMACEUTICAL PRODUCTS	90.82	2,584.67	3.51%
51	WOOL, FINE OR COARSE ANIMAL HAIR	10.61	307.51	3.45%
16	PREPARATIONS OF MEAT, OF FISH	0.29	9.39	3.09%
71	NATURAL OR CULTURED PEARLS, PRECIOUS STONES	2,348.33	78,473.55	2.99%
87	VEHICLES AND PARTS	216.59	7,609.79	2.85%
34	SOAP	30.72	1,193.35	2.57%
40	RUBBER AND ARTICLES THEREOF.	97.94	3,914.05	2.50%
94	FURNITURE	38.07	1,591.22	2.39%
84	NUCLEAR REACTORS, BOILERS, MACHINERY	1,065.05	57,408.94	1.86%

Source: Ministry of Commerce

India Exports to UK (\$ Mn)				
HSCode	Commodity	Export to UK Apr-Mar-2024	Total Export Apr-Mar-2024	%Share of UK Exports in Total
95	TOYS	75.05	523.24	14.34%
83	MISCELLANEOUS ARTICLES OF BASE METAL	106.92	881.88	12.12%
64	FOOTWEAR	257.68	2,490.06	10.35%
48	PAPER	270.8	2,625.46	10.31%
61,62	APPAREL AND CLOTHING ACCESSORIES	1328.86	14,545.03	9.14%
42	LEATHER	196.14	2,446.99	8.02%
20	PREPARATIONS OF VEGETABLES, FRUIT, NUTS	74.57	1,155.64	6.45%
21	MISCELLANEOUS EDIBLE PREPARATIONS.	80.62	1,469.42	5.49%
94	FURNITURE	128.85	2,416.81	5.33%
57	CARPETS	98.64	1,875.56	5.26%
85	ELECTRICAL MACHINERY AND PARTS	1807.82	34,412.52	5.25%
68	ARTICLES OF STONE, PLASTER, CEMENT, ASBESTOS, MICA OR SIMILAR MATERIALS	105.55	2,073.00	5.09%
30	PHARMACEUTICAL PRODUCTS	679.66	22,105.85	3.07%
72	IRON AND STEEL	383.82	11,859.36	3.24%
87	VEHICLES AND PARTS	286.02	20,889.30	1.37%

Source: Ministry of Commerce

Disclaimer

Views/opinions expressed in this research publication are views of the research team and not necessarily that of Canara Bank or its subsidiaries. The publication is based on information & data from different sources. The Bank or the research team assumes no liability if any person or entity relies on views, opinion or facts and figures finding in this report.

Visit us at www.canarabank.com



Economic Research Section

Madhavankutty G (Chief Economist)

Samir Kumar | Ankit Gupta | Sonal Rashmi Ekka | Sreejith T

For Suggestions and views please contact, Economic Research Section

 080-2222 3169 (Chief Economist)
080-2227 3275 (Section)

 chiefeconomist@canarabank.com
hoersection@canarabank.com