26.0 Impact Assessment of the India–UK Free Trade Agreement on Bilateral Trade and South Asian Economic Dynamics

- **Harshit Bhardwaj**, Research Scholar, Defence and Strategic Studies, V.S.S.D. College Kanpur
  Email- harshitsinghh020999@gmail.com

Abstract

The India–UK Free Trade Agreement (FTA), formally referred to as the Comprehensive Economic and Trade Agreement (CETA), was signed on July 24, 2025, after nearly three years of negotiations, amid a global environment marked by rising geopolitical tensions. The deal represents important transformation in the United Kingdom's economic policy while also indicating changes in the global trading system influenced by India's emergence as a crucial economic power. By adopting an analytical and descriptive framework, the study examines the deal's potential effects on South Asia, highlighting its capacity to strengthen the supply-chain connectivity as well as its possibility of causing trade diversion. This paper argues that India's expanding economic engagement with Western powers could unintentionally widens regional inequalities and political sensitivities. It further highlights the needs to strengthen the intra-regional trade cooperation within South Asia to reduce such hurdles and challenges.

Keywords: *Free Trade Agreement (FTA), Geopolitical tensions, Economic engagement, Intra-regional trade.*

Introduction

The India-UK relationship based on historical links has over the years evolved into a mutually advantageous collaborative partnership. The Free Trade Agreement between India and U.K. is a significant phenomenon in the dynamic system of globalisation, during the geopolitical tensions and the expanding significance of bilateral trade deals. Since it's the first comprehensive trade deal between India and a leading European nation and impressive trade venture the United Kingdom has had since Brexit in the year 2020, as the agreement has symbolic and strategic implications. In the broader context of globalisation, the free trade agreement reflects the new trends in the international economic systems where the bilateral agreements are being used more to facilitate mutual growth and holistic economic integration. The Free trade agreement however also has its own challenges to the South Asian region as well. India as a country, which aims at increasing its network of reliable partners, the agreement assists in its diversification strategy and shows hopefulness that will aid in redefining the economic forces in the Indo-Pacific region. It is also considered as a possible alternative to regional economic integration efforts by the powerful countries such as China. The United Kingdom has been trying to achieve this agreement for a long time, and this is in line with its "Global Britain" policy, which aims to build a more robust economic relationship with emerging economies. The important question that arises, in addition to fostering the interests of the two signatories, will the agreement foster and enhance the regional integration, or will the agreement be a source of mere trade diversion that may undermine the overall economic integration of South Asia? The India-U.K. Free trade agreement is not just a milestone in the bilateral relations between the two countries. It also reevaluates the institutional structures within which the trade is conducted in South Asia and underlines the necessity to balance the physical connectivity with sympathetic institutional mechanisms to facilitate the wholesome development. The paper highlights and criticizes current policy debates by proposing a more subtle perspective of the interaction between bilateral and regional strategies to create economic results in South Asia. The new alliance is not only the mutual business interests but also the geopolitical indicator of the political intentions to develop closer relations with the like-minded countries in various regions. In this paper, it is argued that the growing integration of India into Western economic networks presents both opportunities and challenges to regional integration.

India's Growing Economic Power through Free Trade Agreements

The emergence of India as a leading economic power in the world has made it the centre of international trade diplomacy and Free trade agreements have contributed significantly to this change. Since India is the most populous country in the world and currently the fifth-largest economy in terms of nominal GDP, the power of India in international trade has increased considerably, and this has been supported by the increased number of Free trade agreements. This growth in trade deals indicates that India has a strong desire to integrate itself with the world economy, most of these deals are with the neighbouring nations. The United States, the United Arab Emirates and China are the key trading partners of India and form a significant portion of its total trade. India has signed approximately thirteen bilateral and five regional trade agreements in the last few decades, one of them being the Free trade agreement with the United Kingdom and is in the process of negotiating four more trade agreements. Since the early 1990s, trade between India and the United Kingdom has increased significantly, reaching US$ 15 billion by the early 2010s, primarily because of the United Kingdom demand in Indian products such as medicines, textile and IT services. The United Kingdom is significant as well since it is the biggest trade partner of India from Europe. By 2024, the trade value of goods and services between the United Kingdom and India had reached approximately US 55 billion with the United Kingdom experiencing a trade deficit of approximately US 11.5 billion. This was further boosted in 2025 with the exports of India to the United Kingdom growing by 8.4 percent over the past year in March indicating that the United Kingdom is becoming an important trade partner to India. India-UK Free trade agreement is part of the changing global trade trends whereby the United Kingdom is also considering India as a significant partner following Brexit as India also attempts to increase its trade outside Asia. The deal will enable India to lessen its reliance on China based supply chains and will give it a stronger stance with the Western economies. It also enhances the image of India as a stable and investment friendly nation particularly in the digital trade, clean energy and pharmaceuticals which could be more appealing to foreign investment.

The benefits of bilateral Free trade Agreements have brought more focused benefits to India compared to the regional trade agreements. India-Japan Comprehensive economic partnership agreement (CEPA), which was signed in 2011, is an example of lifting tariffs on approximately 90 percent of the goods and therefore increasing exports, such as pharmaceuticals and textiles. Similarly to the India-UAE, CEPA has enhanced the market access of Indian pharmaceutical producers, and the agreement with Korea helps India to leverage its engineering industries. Conversely, the regional agreements such as the SAFTA have been relatively unsuccessful because of the high trade regulations and measures, and unequal development.

Thus, it is more advantageous to concentrate on bilateral agreements with the developed economies since they have more prospects of innovation-based growth.

Impact of the Free Trade Agreement on South Asia

The India-UK Free trade agreement has significant implications to South Asia and it demonstrates how countries in the region can treat trade agreements. The India-UK Free trade agreements establish what economists refer to as the hub and spoke trade system where India is the central hub and benefits because of direct agreements with the key economies such as the United Kingdom. Even though all the eight South Asian countries are members of SAFTA and their participation in bilateral Free trade Agreements varies due to their various economic and political priorities. Consequently, trade that could have been directed to other countries like Bangladesh, Nepal, Sri Lanka or Pakistan could be redirected to India, which is referred to as trade diversion. This scenario may diminish market share and export opportunities of the smaller South Asian economies and thus they are not keen to enhance the regional cooperation. With increased tariff free access to the UK market by the Indian companies, the latter may become more competitive in comparison to the other companies in the South Asian countries which are yet to experience the tariffs issue under the SAFTA. When countries believe that the regional agreements are not equally beneficial, their interest in the goal of regional economic integration by SAFTA may decline and more so, the increasing interest of India in bilateral agreements with the external partners including the proposed India-EU Free trade agreement may further distract the attention of regional trade arrangements. In the long term, this may diminish the efficacy of SAFTA as an organization and solidify India as the leading regional trade hub with a dominant position, at the expense of more global economic partnerships and stabilize development in South Asia.

Opportunities for South Asia’s Growth through the FTA

The Free trade agreement between India and the UK generates good regional prospects in South Asia. India-UK Free trade agreement can expand the trade benefits in South Asia through enhancing logistics and regional supply chains. The additional Indian exports to the United Kingdom can boost the demand of the intermediate goods and facilitate the growth of production in countries such as Bangladesh, Sri Lanka, Nepal etc. The enhanced infrastructure and connectivity, Colombo West International Terminal, can contribute to the increased integration of South Asian countries in the regional supply chains. The shipping agreement between India and Bangladesh also enables cargo to be transported to Mumbai, which makes the garment industry of Bangladesh more competitive.

The enhanced trade connections are beneficial to both the South Asian exporters and the British retailers since it lowers the sourcing cost and enhances the supply chains. Improved infrastructure like Nepal Dodhara Chandani dry port that is connected to Jawaharlal Nehru Port Trust (JNPT) in India can lower the expenses of transport and support the exports, such as textiles and handicrafts. Greater access to trade can also favour the neighbouring countries by increasing the demand of intermediate goods, transfer of technology and movement of labour. The intention of India to be a regional logistic hub is quite compatible with the intention of the United Kingdom to create reliable and more diversified supply networks. As FTA can lower the cost of trade and enhance the supply chain integration, they are able to increase the productivity of the region as well. To the countries such as Bangladesh, Sri Lanka and Nepal the Free trade agreement will provide them with the opportunity to be part of the global supply chains related to the Indian companies that cater to the markets in the West. As the infrastructure is improved, and logistics are made easier, particularly in the landlocked nations such as Nepal and Bhutan, the agreement may facilitate the transportation of local goods via Indian ports to the market of the United Kingdom and promote broader economic integration in South Asia.

Potential Drawbacks of the Free Trade Agreements

Despite the numerous advantages of the Free trade agreements, there are also risks as well. Trade diversion can be experienced where the Indian exports will be more competitive since the cost of production will be low. The threat of trade diversion can be high since the trade and transportation costs in South Asia are still high because of poor infrastructure, slow customs processes as well as overcrowded borders. This would decrease trade opportunities of the neighbouring country such as Bangladesh because it would lose approximately 50 million of its textile exports to the United Kingdom, approximately 12.5 per cent of its 2024 textile exports. Unless there are any improvements in the form of better infrastructure, easier border management processes, and facilitating regional trade policies, the India-UK Free trade agreement may increase trade imbalances and decrease economic integration in South Asia.

The landlocked nations such as Bhutan and Nepal are particularly susceptible as they completely rely on passage through India. The greater trade position of India may expand economic disparities unless the smaller states change their policies. The Free trade agreements also pose a problem to regional collaboration because the interest of India in bilateral agreements can undermine multilateral efforts such as SAFTA. Critics argue that allowing approximately 85 percent of British exports to enter India duty-free will strain up the local markets and the United Kingdom carbon tariffs planned in 2027 will impact approximately $ 775 million of Indian exports, particularly in the aluminium, steel, and cement industries.

Policy Implications

The India-UK Free trade agreement has a great potential of enhancing economic growth and integration within South Asia. Nevertheless, its influence on the neighbouring countries is multifaceted since it can foster integration to some countries and pose the risks of exclusion to others. Thus, these outcomes should be carefully considered in a systematic manner by policymakers and experts. Infrastructure as well as policy reforms are necessary to reduce the risk of trade diversion. More open trade policies should be associated with the cross-border transport projects such as SASEC and BBIN. Such measures will help lower the cost of transport and enhance access to the markets by the smaller South Asian economies. Improved connectivity infrastructure and regional trade agreements can assist them to diversify trade and not rely on one regional hub. In order to enhance regional supply chains, nations such as Bangladesh and Sri Lanka ought to request bilateral trade agreements with key partners. In the case of Bangladesh, free trade agreement with India, the United Kingdom or both would help in its export-led growth agenda. These will enhance production connections in the region and make industries such as textiles remain competitive. The costs can be reduced and competitiveness increased across South Asia in the long term by integrating the India-UK Free trade agreement with regional strategies by having well established connectivity projects, better infrastructure, inland logistics hubs and developed ports. It is important to address the infrastructure gaps to avoid exclusion of landlocked countries such as Bhutan and Nepal, and coordinated planning, trade corridors and investment in dry ports can help to achieve more equal distribution of trade benefits. The trade diversion can be mitigated with the help of Aid-for-Trade and regional connectivity programs, and the local firms must invest in local capabilities and technology transfer to get the most out of the FTA and the least out of the risks. With the shift in the global trade patterns, companies are reorganising their production networks to fit in the new tariff advantages and market access under bilateral FTAs such as the India-UK agreement. The multinational companies in Bangladesh should adjust by reinforcing production alliances with the neighbouring nations or diversification of the supply chains to mitigate the risk of trade diversion. Even though the exports of apparel by Bangladesh to the United Kingdom might decrease by approximately US$ 50 million following the FTA, the loss can be offset in case regional agreements like the Bangladesh-Bhutan-India-Nepal Motor Vehicles Agreement are enacted which would boost intra-regional trade by almost 60% (World Bank, 2023). In order to remain competitive, the policymakers must emphasise on the modernisation of customs, better logistics, and transport across the borders.

Conclusion

The India-UK Free trade agreements indicate a move towards bilateral trade as opposed to multilateral trade indicating the increasing economic orientation of Britain towards the East and the increasing strength of India in a global economy. Although India is benefiting in terms of strategic position due to its massive market and skilled labour force, there are still fears of increasing regional inequalities and the potential marginalisation of other smaller South Asian economies. To minimize the threat of trade diversion and enjoy the full benefits of new FTA, the policymakers need to pay attention to developing better infrastructure, enhancing regional cooperations and aligning national trade policies with larger regional objectives so that smaller countries could maximize the benefits too. Meanwhile, the multinational companies must adjust their supply chains to enjoy the tariff advantages and be competitive in the evolving trade environment. In general, the India-UK

Free trade agreement has a high economic growth potential, although its effects on South Asia will be determined by the ability of the regional stakeholders to adjust to the changing trade environment.

References

Embassy of Japan in India. 2025. ***Entry into force of the Japan-India CEPA***. https://www.in.emb-japan.go.jp/Japan-India-Relations/cepa.html.

BGMEA. 2025. Export Performance. ***Bangladesh Garment Manufacturers and Exporters Association***. https://bgmea.com.bd/page/Export_Performance.

Kleinert, J. 2003. Growing trade in intermediate goods: Outsourcing, global sourcing, or increasing importance of MNE networks? ***Review of International Economics***, 11(3): 464–482.

Department for Business & Trade. 2025. ***Trade and Investment Factsheets***. Department for Business & Trade. https://assets.publishing.service.gov.uk/media/68514217f2ccfcfd2f823f4e/india-trade-and-investment-factsheet-2025-06-19.pdf.

Mishra, R. 2025, May 28. Exports to UK carry tariff risk as carbon tax left out of FTA. ***Indian Express***. https://indianexpress.com/article/business/exports-to-uk-carry-tariff-risk-as-carbon-tax-left-out-of-fta-10032914/.

World Bank. 2023. ***Bangladesh Development Update***. Dhaka, Bangladesh: World Bank.

Government of India, Press Information Bureau (PIB), Backgrounder "India–UK CETA". 27 July 2025. Available from: https://www.pib.gov. in/PressNoteDetails.aspx?id=154945&NoteId=154945&ModuleId=3.

TheUK-Indiatradeagreement:whatdoweknowaboutthedeal?.May 8, 2025. Available from: https://taxscape.deloitte.com/article/a-new uk-india-fta.aspx.

SWA welcomes "transformational" UK-India FTA. May 06, 2025. Available from: https://www.scotch-whisky.org.uk/newsroom/swa welcomes-transformational-uk-india-fta/.

Dewan N. The Economic Times. India-UK trade deal: Can the $174-billion textile sector deliver?. Jul 28, 2025. Available from: https://economictimes.indiatimes.com/small-biz/sme-sector/ india-uk-trade-deal-can-the-174-billion-textile-sector-deliver/ articleshow/122946883.cms.

The Business Line. India-UK FTAHighlights: India, UK sign 'historic' free trade deal whichwilldoubletradeby2030.July25,2025. Available from: https://www.thehindubusinessline.com/economy/india-uk free-trade-agreement-highlights-pm-Modi-Keir-Starmer-FTA-deal news/article69851058.ece.

Goswami S. India-UK FTA done and dusted but bilateral investment treaty still pending. Money Control. May 07, 2025. Available from: https://www.moneycontrol.com/news/business/economy/india-uk fta-done-and-dusted-but-bilateral-investment-treaty-still-pending 13015363.html.

Ministry of External Affairs, Government of India. India-UK Vision 2035. July 24, 2025. Available from: https://www.mea.gov.in/bilateral documents.htm?dtl/39846.

Bhandari P. India UK FTA: A trade deal that puts India first. August 01, 2025. Available from: https://www.businesstoday.in/opinion/ columns/story/india-uk-fta-a-trade-deal-that-puts-india-first 487429-2025-08-01.

Bajpayee C. India–UK free trade agreement signals deepening bilateral relations. Chatham House. May 08, 2025. Available from: https://www.chathamhouse.org/2025/05/india-uk-free-trade agreement-signals-deepening-bilateral-relations.

Global Trade Research Initiative, GTRI Report. India's UK Trade Deal: Gains, Gaps, and a Glimpse of the Future. May 2025. Available from: https://www.gtri.co.in/gtriFlagshipReportsd.asp?ID=108.