FTA tariff concessions cost India ₹94,172 crore in FY25

Customs revenue set to face greater strain as country pursues more trade pacts

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THE TRADE-OFF

Revenue impact of FTAs signed by India (₹cr)

	FY24	FY25
TOTAL	**89,205**	**94,172**
ASEAN	37,269	37,875
Japan	10,312	12,038
South Korea	9,873	10,335
Australia	6,416	5,234
UAE	1,847	4,841
Malaysia	1,189	1,261
Others	22,299	22,588

Source: FY26 Budget document

ASIT RANJAN MISHRA
New Delhi, 4 March

With India negotiating trade deals with developed economies like the United States (US), European Union (EU), and United Kingdom (UK), its customs duty collection, budgeted to grow only 2.1 per cent to ₹2.4 trillion in FY26, may come under more pressure than it is now.

India had forgone ₹94,172 crore as customs duty in FY25 due to preferential tariff reductions under free-trade agreements (FTAs) signed with entities such as Japan, South Korea, and the Association of Southeast Asian Nations (Asean).

While India and the US have agreed to begin negotiations on a "first tranche of a mutually beneficial, multi-sector" bilateral trade agreement (BTA) in the next seven to eight months, India and the EU have set a December deadline to conclude the long-pending FTA negotiations.

While the UK and India have not set a deadline, Commerce Minister Piyush Goyal has said that the trade deal will be done with "speed" and not in "haste".

According to FY26 Budget documents, the revenue impact due to signing an FTA was the highest in the case of Asean, ₹37,875 crore in FY25, followed by Japan (₹12,038 crore) and South Korea (₹10,335 crore). India's high tariffs require substantial customs duty reductions during FTA negotiations to provide market access for partner countries. The revenue forgone due to such tariff concessions has been traditionally an issue with revenue-department officials.

However, it is widely acknowledged that customs duties should not serve as a revenue-generating tool.

Ajay Srivastava, founder, Global Trade Research Initiative (GTRI), said the duty forgone for India was high because "our non-discriminatory (most favoured nation) tariffs" were high (a weighted average around 12 per cent). "Countries such as Australia, New Zealand, and Japan, which have signed many FTAs, have 80-90 per cent of their imports through countries they have such deals with. But we import only about 25 per cent from such nations. Once we sign FTAs with the US, UK and EU, this will rise to 60-65 per cent and naturally the revenue forgone on this front will increase," he added.

Srivastava, however, said revenue collection through customs duties should no longer be an objective. "Customs duties used to have two objectives — revenue collection and infant industry protection. Now, revenue collection is no more an objective. It should be used only when the government needs to protect its industry," he added.