

India's FTAs will work better than before



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FTAs between countries and blocs will be the new normal, galvanised by the US action on tariffs; besides, post-Covid deals have been more effective for India

FY26 HAD STARTED on a gloomy note with the US announcing its tariff policy, which was exacerbated by the imposition of additional tariffs in August. At 50%, the tariff picture looked challenging. Estimates varied on its effect on exporters and the final impact on GDP growth.

Being a domestic-oriented economy, the impact on India's GDP growth was not expected to go beyond 0.2-0.4%. In fact, by December-end, overall exports to the US saw a 9.7% growth compared with 5.7% for the same period in 2024-25—and much higher than the 2.4% witnessed at the aggregate level. How did this happen?

First, important products like pharma and mobile phone were exempted. Second, there was frontloading of exports in the earlier months. Third, some exports were re-routed through other countries. Fourth, negotiations with import partners on pricing helped maintain some of the contracts.

The free trade agreement (FTA) with the European Union (EU) and the US deal will now place export prospects on a higher trajectory, as they are our largest export destinations. Two points must be kept in mind. The first is that exporters in industries such as textiles, chemicals, leather products, marine products, and gems and jewellery would be at an advantage as these markets offer more opportunities. India will have an edge over rivals like Bangladesh and Vietnam that have a slightly higher tariff. Sec-

ondly, imports too will increase and pose competition to the domestic industry. The details thus become important because FTAs in general offer reciprocal benefits for both sides.

The US deal generates additional interest, considering President Trump has spoken about India buying oil not from Russia but from the US and Venezuela. Indian refiners need clarity because apart from Russian oil costing lower, freight costs would be higher for other alternatives. Further, since imports cannot be reduced to nil in a month but only gradually, the phasing of reduction would be pertinent.

The EU deal also demands close scrutiny as non-tariff barriers can remain a concern although tariffs have been lowered for over 95% of exported goods. For instance, the West is known to enforce rules such as phytosanitary conditions to block farm product imports from emerging markets. Similarly, environmental issues come in with certification requirements. Subjects such as carbon emissions therefore become important. The list gets longer when labour conditions are scrutinised.

Thus, signing trade deals is a necessity and help in the long run, but the details matter to all exporters.

The question, then, is whether FTAs really work or not? History provides interesting clues. In the past, any kind of agreements—FTA, Comprehensive Economic Partnership Agreement, or Comprehensive Economic Co-operation Agreement—has not moved the needle significantly. For example, Singapore's share in Indian exports came down from 5.3% in 2006 to 3% in 2024-25; in case of Japan, the share dropped from 2.1% in 2012 to 1.4%; and that of South Korea fell from 2.2% in 2009 to 1.3%.

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There were success stories with Malaysia, as the share went up from 1.3% in 2012 to 1.7%, and Mauritius (from 0.2% in 2023 to 0.5%). The post-Covid share of UAE was up from 7% to 8.4% and that of Australia from 1.5% to 2%. Post-Covid deals have been more effective, so prospects with the UK and US augur well.

The geopolitical scenario has changed and the tariff issue has made countries talk to one another more often than before. The World Trade Organization is now an acknowledged failure. But the tariff shock has led countries to sign FTAs among themselves to act as a buffer against the US backlash, which is a good development. In a way, the US president has brought countries closer to one another, which will foster higher

levels of trade. More importantly, countries have begun lowering their tariff rates. Although the lower rates are restricted to those signing deals, they have fostered a culture of openness in imports and therefore trade.

On the positive side, the markets in India have reacted very well. The currency also has been a beneficiary as one of the main reasons for the rupee coming under relentless pressure was the absence of a deal with the US. Now that a formal agreement is on the anvil, the rupee has steadied and will be a comfort for the Reserve Bank which has otherwise had to deal with steadying it often.

While there have been fluctuations in the stock market, the general thrust has been positive since the India-US deal was announced. This augurs well for foreign portfolio investors. One of the reasons for their muted activity in the Indian market was the uncertainty surrounding the deal. Now, hopefully it will be business as usual.

FTAs between countries and blocs will be the new normal in the coming years, galvanised by the US action on tariffs. This is welcome from the point of view of fostering a new global economic order where freer trade with fewer restrictions would hold. While the fate of goods appears to be more straightforward, services is one area that has to be focused upon in future.

Views are personal