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Opportunities and Challenges of the India–UK Free Trade Agreement (FTA): A Sectoral and Trade-based Analysis

S. Nagamani

Assistant Professor, Dept. of Commerce, Government Degree College, Alair, Yadadri-Bhuvanagiri, Telangana, India

ABSTRACT: The India–United Kingdom Free Trade Agreement (FTA), signed in 2025, represents a landmark in bilateral economic relations. This paper examines the potential opportunities and challenges that the agreement presents for India, using secondary data analysis from official government sources, international trade databases, and academic studies. The study evaluates projected trade growth, sectoral impacts, and foreign direct investment (FDI) flows between India and the UK. It also identifies non-tariff and regulatory constraints that may affect Indian exporters. Key findings indicate significant opportunities for labour-intensive sectors, pharmaceuticals, information technology, and engineering goods, alongside challenges in services liberalisation, domestic competition, and compliance with UK standards. Policy recommendations are provided to enable India to maximise benefits from the FTA while mitigating risks.

KEYWORDS: India–UK FTA, Bilateral Trade, Sectoral Analysis, FDI, Trade Opportunities, Challenges.

I. INTRODUCTION

Trade Liberalization through Free Trade Agreements (FTAs) is a strategic instrument for economic growth and global market integration. For emerging economies such as India, FTAs provide avenues to access large consumer markets, attract foreign investment, and integrate into global value chains. The India–UK FTA, signed in July 2025, marks the first comprehensive trade agreement between the two countries following the UK's exit from the European Union. The agreement aims to reduce tariffs, enhance market access for goods and services, and facilitate investment flows.

The India–UK FTA is expected to have a significant impact on trade flows. According to the UK Department for Business & Trade, bilateral trade could increase by £25.5 billion in the long term, with UK exports to India projected to rise by £15.7 billion and imports from India by £9.8 billion². For India, the agreement presents opportunities in textiles, leather, pharmaceuticals, information technology, and engineering goods, while also exposing sensitive sectors to increased competition. This paper seeks to systematically analyse the economic opportunities and challenges for India, using secondary data sources, sectoral assessments, and FDI trends to provide a comprehensive picture of the bilateral trade environment under the FTA.

II. LITERATURE SURVEY

The academic and policy literature on FTAs emphasises both the opportunities created by tariff reductions and the challenges posed by non-tariff barriers (NTBs), regulatory compliance, and domestic industry preparedness³. Theoretical models, including Computable General Equilibrium (CGE) simulations, suggest that FTAs increase welfare by expanding trade volumes, reducing costs, and incentivising investment.

Several studies highlight the India–UK bilateral context. The UK government's Impact Assessment indicates that India's exports to the UK could increase by 25% over the long term, driven by textiles, engineering goods, and pharmaceuticals². Simultaneously, India's import exposure may rise, particularly for luxury goods, automobiles, and processed food products, necessitating careful domestic policy calibration.

Chatham House reports suggest that the FTA signals deeper geopolitical and economic alignment between India and the UK, with potential spillover benefits for investment, technology transfer, and services trade⁶. Further, consultancy analyses (KPMG, EY, CareEdge) underscore that Indian MSMEs must meet UK quality standards, adhere to Rules of Origin (RoO), and comply with environmental and labour regulations to fully exploit the FTA.

Emerging studies also explore sector-specific impacts. Pharmaceuticals benefit from generic medicine market access, whereas textiles and apparel gain through zero tariffs. Engineering goods and auto components stand to gain from supply chain integration with UK manufacturers, while IT services may expand due to regulatory cooperation in digital trade and data movement.

Despite the benefits, the literature indicates challenges in services liberalisation, phased tariff reduction for sensitive goods, and domestic capacity constraints. This suggests that realisation of projected gains depends on India's ability to enhance competitiveness, comply with standards, and strategically leverage sectoral strengths.

III. RESEARCH GAP

Although existing literature provides macroeconomic projections of trade growth and general sectoral opportunities under the India–UK FTA, there is limited analysis integrating **trade flows, FDI trends, and detailed sectoral impacts simultaneously**. Most studies focus on either goods trade or services separately, without consolidating bilateral trade, investment, and sector-specific challenges into a comprehensive analytical framework. This study addresses this gap by combining secondary trade data, FDI statistics, and sectoral assessments to provide a holistic evaluation of the FTA's implications for India.

OBJECTIVES

The main purpose of the study is to identify the opportunities and challenges emerged from the Free Trade Agreement between India and UK, but the paper guided by the following sub objectives.

1. To quantify the potential trade and macroeconomic gains for India under the India–UK FTA using secondary data.
2. To identify and analyse key sectors likely to benefit or face challenges under the FTA framework.
3. To evaluate the main barriers, including non-tariff and regulatory constraints, and propose policy measures to maximise benefits.

IV. METHODOLOGY

This study employs a **descriptive and analytical research design**, based entirely on secondary data sources. The methodology includes:

- **Data Collection:** Trade flow data from WITS/UN Comtrade (2015–2024), FDI statistics from DPIIT/UK DBT, sectoral tariff and NTB information from WTO and MoC India, and macroeconomic indicators from IMF/World Bank.
- **Data Analysis:** Tabular presentation of trade, FDI, and sectoral data, followed by comparative analysis to identify growth trends, vulnerabilities, and sector-specific opportunities.
- **Synthesis:** Integration of quantitative data with qualitative insights from academic papers, consultancy reports, and government publications.
- **Limitations:** Projections are subject to assumptions in phased implementation of tariff reductions, and potential changes in regulatory frameworks over time.

V. DATA ANALYSIS AND DISCUSSION

Table 1: India–UK Bilateral Trade (2015–2024)

Year	India Exports to UK (USD bn)	India Imports from UK (USD bn)	Total Trade (USD bn)	Growth Rate (%)
2015	8.2	6.7	14.9	–
2016	8.6	7.0	15.6	4.7
2017	9.1	7.2	16.3	4.5
2018	9.7	7.8	17.5	7.4
2019	10.5	8.2	18.7	6.9
2020	9.9	7.5	17.4	–7.0 (COVID-19)
2021	11.0	8.5	19.5	12.1
2022	12.4	9.2	21.6	10.8
2023	13.7	9.8	23.5	8.8
2024	14.8	10.2	25.0	6.4

Analysis: India’s exports to the UK have grown steadily from USD 8.2 bn in 2015 to USD 14.8 bn in 2024². The FTA is expected to further accelerate this growth, particularly in textiles, pharmaceuticals, and IT services. Imports from the UK are also increasing, indicating deeper bilateral integration. The bilateral trade trajectory between India and the United Kingdom shows a **consistent upward trend**, growing from **USD 14.9 billion in 2015 to USD 25 billion in 2024**, representing an approximate **68% expansion over nine years**. The data underscores four notable phases:

Table-2: Notable Phases in India-UK Bilateral Trade

Phase	Period	Trend	Key Drivers
Phase 1	2015–2018	Steady rise	Brexit uncertainty led the UK to diversify trade partners; India benefited from stable goods demand
Phase 2	2019	Strong momentum	India’s export competitiveness in pharma, textiles, and engineering goods improved
Phase 3	2020	Temporary contraction	COVID-19 supply shock disrupted logistics and output
Phase 4	2021–2024	Accelerated recovery	Pent-up demand, supply chain diversification, and renewed diplomatic engagement

Export-led momentum:

India’s exports rose from **USD 8.2 bn to USD 14.8 bn**, nearly **80% growth**, driven by labour-intensive and price-competitive sectors such as **textiles, pharmaceuticals, gems & jewellery, and engineering goods**. UK demand for generics and IT-enabled services further widened India’s export base.

FTA implication:

Tariff elimination under the FTA particularly benefits sectors where India already has a comparative advantage. With UK import tariffs on Indian textiles and apparel (previously 8–12%) set to fall to zero, the FTA is expected to **push India’s export share further upward**, potentially crossing **USD 30–32 billion in the short-to-medium term**, assuming stable market conditions.

Import trends:

India's imports from the UK increased at a slower pace (**USD 6.7 bn to USD 10.2 bn**). These are dominated by **high-technology goods (machinery, precision equipment, automotive parts), spirits, and chemicals**. Post-FTA, reduced import duties on **premium spirits, EV components, and advanced machinery** may expand this basket, supporting Indian manufacturing and technological upgrading.

Table 3: India–UK FDI Flows (2015–2024)

Year	UK FDI in India (USD bn)	Indian FDI in UK (USD bn)	Net FDI Flow (USD bn)
2015	2.1	0.8	1.3
2016	2.5	0.9	1.6
2017	2.8	1.1	1.7
2018	3.0	1.2	1.8
2019	3.2	1.3	1.9
2020	2.7	1.0	1.7
2021	3.5	1.5	2.0
2022	4.0	1.7	2.3
2023	4.2	1.8	2.4
2024	4.5	2.0	2.5

Analysis of Bilateral FDI Movements: Bilateral FDI flows indicate increasing UK investment in India, especially in pharmaceuticals, IT, and automotive sectors. Indian FDI in the UK, though smaller, is growing in IT services and renewable energy sectors.

FDI flows highlight the investment dimension of bilateral relations. The **UK is one of India's top 6 FDI sources**, and its investments grew from **USD 2.1 bn to USD 4.5 bn (2015–2024)**. This trend indicates long-term strategic confidence in India's domestic market.

Key observations:

1. **Stable upward flow:** The near-doubling of UK FDI reflects investor confidence in India's **regulatory reforms, market size, and production-linked sectoral incentives**.
2. **Sectoral concentration:** UK investments are heavily directed toward **pharmaceuticals, IT services, automotive R&D, banking, and renewables**, aligning with UK strengths in innovation and high-value services.
3. **Two-way investment:** Although smaller, **Indian FDI in the UK nearly tripled (USD 0.8 bn → USD 2.0 bn)**, led by **IT, steel, hospitality, and renewable energy** firms. This reflects India's growing role in global value chains.

FTA implication:

With **investment protection, dispute-settlement mechanisms, and reduced compliance barriers**, the FTA is expected to:

- Increase **UK's manufacturing and green-technology FDI in India**
- Encourage **Indian IT and pharma companies** to scale operations in the UK
- Strengthen the **Make in India + export-from-UK-to-Europe** model for Indian firms

This scenario makes the FTA as a *dual engine* for both **trade expansion and investment-driven industrial growth**.

Table 4: Sector-wise Impact (5 Key Sectors)

Sector	Tariff Reduction	Trade Share (2024, %)	Opportunity	Challenge / Risk
Pharmaceuticals	0%	18	Enhanced market access, generic drugs export	Regulatory compliance, IP standards
Textiles & Apparel	0%	15	Labour-intensive exports, zero duties	Quality standards, competition from UK imports
Automobiles & Auto Components	Phased 0–5%	12	Supply chain integration, engineering exports	Sensitive sector, domestic adjustment needed
IT & IT-enabled Services	N/A (services)	20	Regulatory cooperation, digital trade	Limited movement of skilled personnel
Food, Agriculture & Beverages	0–5%	10	Access to high-income UK market	SPS standards, seasonality, perishable logistics

Sectoral Impact Analysis: The five sectors represent 75% of India–UK trade by value in 2024. Pharmaceuticals, textiles, and IT services have the highest potential gains, while automotive and food sectors require careful regulatory and logistical planning to realise benefits^{5,7,9}.

The five identified sectors represent **75% of India’s export value to the UK**, and each displays a distinct opportunity–challenge profile:

Table – 5: Sectoral Impact Analysis

Sector	Analysis
Pharmaceuticals	With 0% tariffs, Indian generics and APIs can expand faster, leveraging cost advantage. However, UK’s MHRA regulatory compliance and stricter IP norms increase the need for quality certification and R&D-oriented strategies.
Textiles & Apparel	Zero-duty access gives India a strong edge over Bangladesh, Vietnam, and Turkey , but eco-standards, fast-fashion timelines, and rules of origin present operational challenges for MSMEs.
Automobiles & Auto Components	Gradual tariff reduction opens opportunities for EV components and engineering exports , but domestic players face pressure from imported UK premium brands. Balanced liberalisation helps avoid market disruption.
IT & ITeS	Goods tariffs do not apply, but data protection, digital trade rules, and easier business visas (Mode 4 movement) are crucial. This sector has highest upside with minimal competitive threat.
Food & Agriculture	UK offers a high-value market for spices, processed foods, and rice , but SPS (sanitary and phytosanitary) barriers, shelf-life, and logistics remain constraints.

FTA implication:

The FTA acts as a **trade accelerator for competitive sectors (pharma, textiles, IT)** and a **modernisation trigger for defensive sectors (auto, agri)**. The overall effect is a *net-positive, encouraging outcome that enhances competitiveness*.

Table-6: Overall FTA Effect

Variable	Observation	FTA Effect
Trade	Strong upward trend	Gains will further accelerate, especially in merchandise exports
FDI	Rising two-way capital flows	Greater policy certainty will crowd-in more UK investments
Sectoral Outcomes	Three high-opportunity and two sensitive sectors	Requires sector-specific strategy and regulatory preparedness

The empirical trend proves that **the FTA is not the starting point, but the catalyst** of an already strengthening economic corridor, moving the relationship from **trade-driven to trade-plus-investment-plus-innovation partnership**.

VI. DISCUSSION

The India–UK FTA creates a framework for increased trade, investment, and sector-specific growth. Actual trade data show consistent growth trends, with exports increasing 80% over the past decade. FDI inflows indicate confidence in India’s business environment, particularly in pharmaceuticals and IT sectors.

The FTA’s tariff elimination provides direct benefits for labour-intensive goods, boosting competitiveness in the UK market. Regulatory cooperation in IT services facilitates digital trade, while phased reductions in sensitive sectors like automobiles help mitigate domestic disruption.

Challenges remain, particularly in non-tariff barriers, quality standards, and limited liberalisation in services. Compliance with Rules of Origin (RoO), SPS, and environmental standards is critical. Indian MSMEs may need capacity-building support to fully exploit the agreement^{3,6,8}.

VII. FINDINGS

- 1. Trade Growth:** India’s exports to the UK are projected to grow substantially post-FTA, particularly in pharmaceuticals, textiles, and IT services.
- 2. Investment Opportunities:** Bilateral FDI flows are increasing, signalling confidence in India’s industrial sectors.
- 3. Sectoral Implications:** Five key sectors (pharma, textiles, automotive, IT, food &agri) dominate trade and will benefit from tariff reductions, but face regulatory and compliance risks.
- 4. Policy Needs:** Infrastructure, standards compliance, MSME support, and strategic sectoral focus are essential to maximise gains.

VIII. CONCLUSION

1. The India–UK Free Trade Agreement is a milestone in bilateral economic engagement, offering India substantial opportunities in exports, sectoral development, and FDI attraction.
2. While trade projections indicate growth, the benefits are contingent upon India’s capacity to meet UK regulatory standards, strengthen domestic supply chains, and strategically target high-growth sectors.

IX. SUGGESTIONS

1. By addressing non-tariff barriers, facilitating MSME participation, and integrating into global value chains, India can convert the FTA into a sustainable engine for trade expansion and economic development.
2. Since, UK has exited from the European Union and dominating the foreign trade with other countries through its British sterling Pound, it shall invest in rapidly developing countries like India to gain from the currency exchange values.

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