

## INDIA'S TRADE RELATIONS-AGONY OF TRUMP TO ECSTASY OF FTA



### Context:

- With just a day left for the **August 1 deadline** set by the **Donald Trump** administration to wrap up agreements with its trading partners, the **American President** on **July 30** announced **25 percent tariffs “plus a penalty”** for **India**.



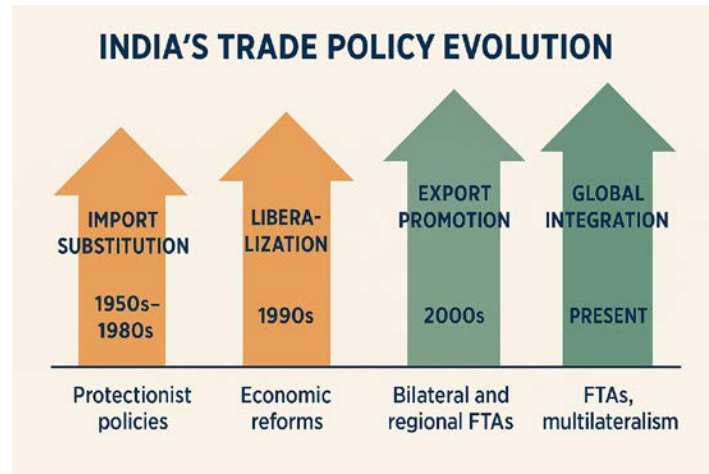
Donald J. Trump ✓  
@realDonaldTrump

Remember, while India is our friend, we have, over the years, done relatively little business with them because their Tariffs are far too high, among the highest in the World, and they have the most strenuous and obnoxious non-monetary Trade Barriers of any Country. Also, they have always bought a vast majority of their military equipment from Russia, and are Russia's largest buyer of ENERGY, along with China, at a time when everyone wants Russia to STOP THE KILLING IN UKRAINE — ALL THINGS NOT GOOD! INDIA WILL THEREFORE BE PAYING A TARIFF OF 25%, PLUS A PENALTY FOR THE ABOVE, STARTING ON AUGUST FIRST. THANK YOU FOR YOUR ATTENTION TO THIS MATTER. MAGA!

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## 1. How did India's trade policy evolve after independence?



- Since 1947, India has made an **impressive transformation of its trade policy and practices**.
- Initially after independence, India adopted a protectionist trade stance with high **import barriers** (to encourage 'import substitution' by local producers) and strong industrial regulation.
- Influenced both by its **past colonial experience** as well as the desire to foster **self-reliance**.
- As a result, the period was characterised by extremely **high regulation** of industries and control over integration with the wider world.
- India's **merchandise exports** in 1948 were worth just over **\$1 billion**, with the country experiencing a **marginal trade deficit**. Major exported items at that time included **jute, cotton, oil seeds and tea**, while **imports** were mostly dominated by food grains and basic consumption goods, along with intermediate products such as mineral oils.
- In the first few decades after independence, at least until the late 1980s, Indian industry was mostly dominated by what was called the '**licence raj**', a system in which businesses required official permits to operate, further **worsened by production quotas**.

- This meant that India had a highly regulated economy, the backbone of which was **the Industries (Development and Regulation) Act of 1951**.
- Overall, **the economic thinking of that era**, which in many cases favoured state intervention, played a major part in India's industrial and trade policies.
- But the **1991 reforms** marked the shift to a liberalised economy, encouraging openness to trade and foreign investment.
- This reflects India's **evolving approach** to balancing domestic **industry protection** with global **economic integration**. The subsequent three decades have seen these reforms take hold.

## 2. What were the limitations of India's early economic model?

- It became increasingly clear by the 1980s that this model had grave limitations, as the economy experienced what became known as the **'Hindu rate of growth'** during the first three decades of independence.
- Indian GDP grew at an average **annual rate of 3.6%** during this period.
- The country's trade **deficit** also **widened** from approximately \$0.1 billion in 1948 to \$6.3 billion in 1980.
- Realising the limitations of the system, the government started to liberalise the economy gradually in the 1980s, although the reforms of that decade were more pro-business than pro-market.
- The **former** type of reform focuses more on **increasing the profitability of established enterprises**, while the **latter** is more concerned with **removing the overall barriers present in markets** so as to **encourage new entrants**.
- Indian reforms in the 1980s aimed to get **existing businesses to grow** and to do so quickly.

### 3. What triggered India's shift towards economic liberalisation?

- The turning point in India's journey toward economic liberalisation was the set of reforms announced in 1991.
- The country faced a **severe balance of payments crisis** at that time, with foreign exchange reserves only enough to cover imports for three weeks.
- The **licence raj was dismantled**, trade was liberalised and there was a broader shift towards a market-oriented economy, **effectively opening India to global trade and investment**. From the crisis came opportunity.

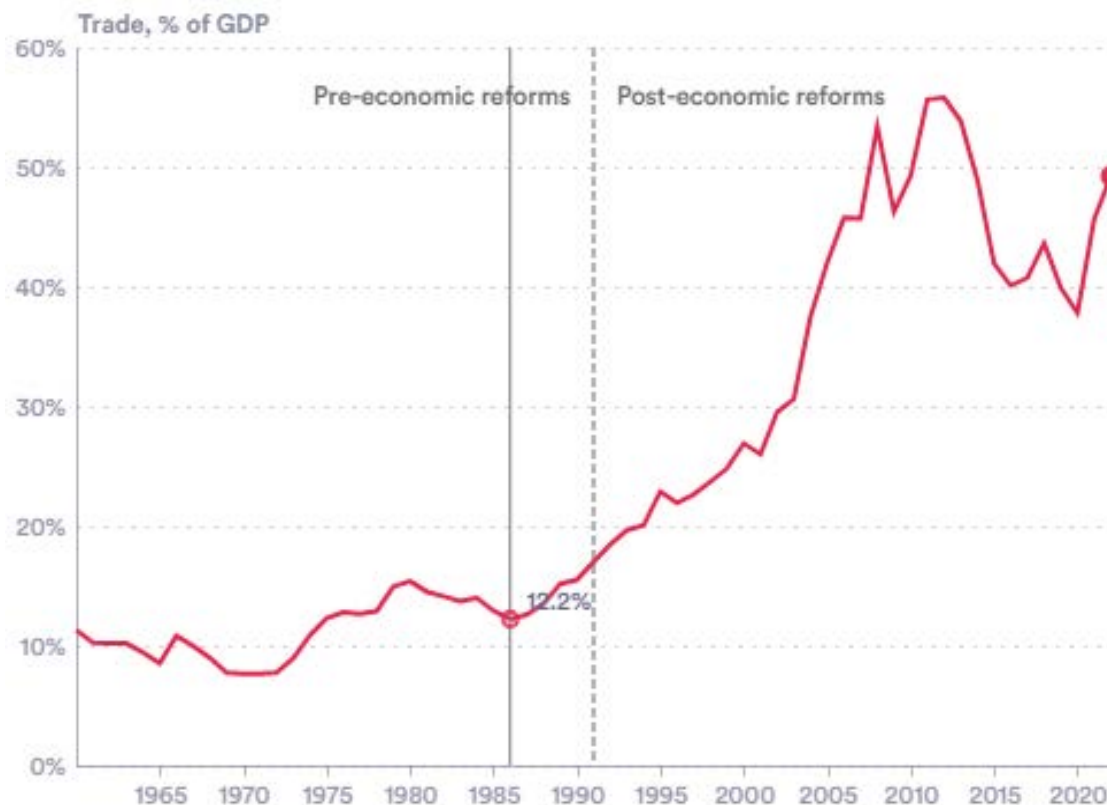
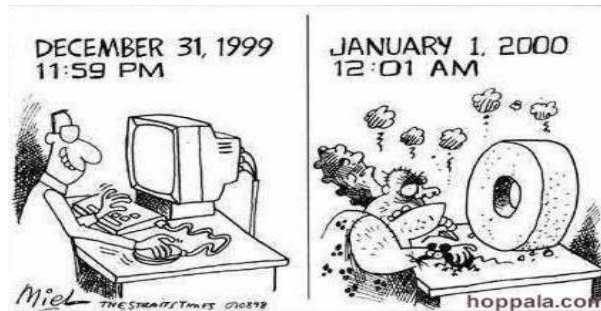


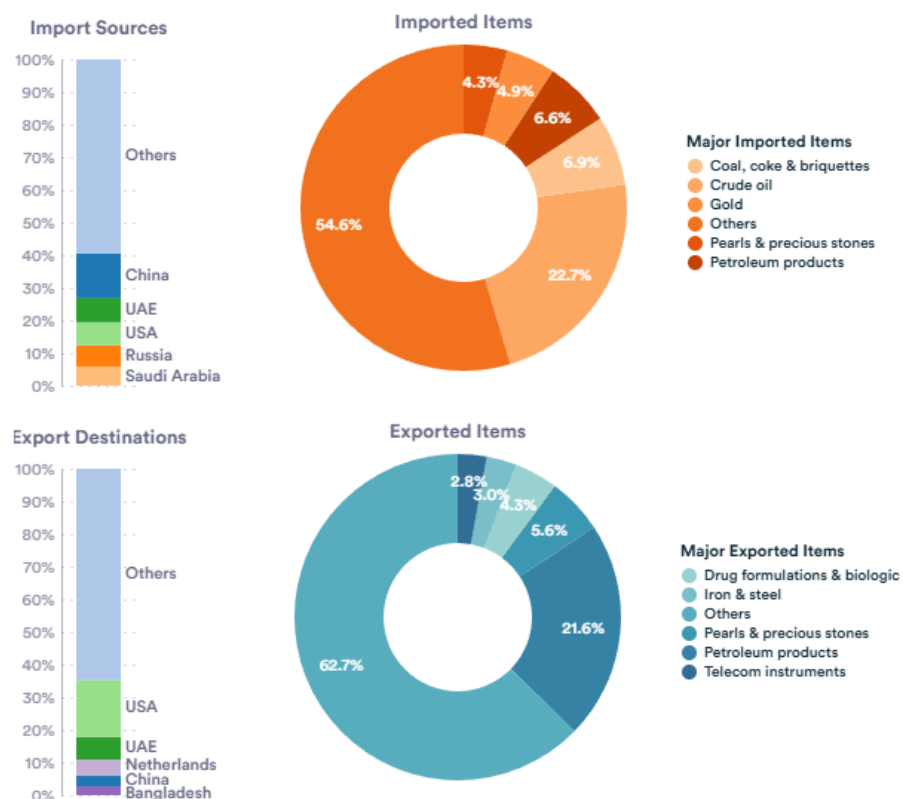
Figure 1: India's trade as a share of GDP (1960-2022)

- An important aspect of the reforms was the **emergence of the services sector**, especially the **information technology** industry, which, on the back of the so-called '**Y2K problem**', saw exponential growth.



- Today, the **services sector** contributes over **one-third of India's total exports**.
- Overall, **India's trade policy** is continuing to evolve, balancing the needs of a **developing economy** with the **importance of global integration**.
- **Embracing globalisation** can significantly benefit economies like India's, **enhancing economic growth and elevating living standards** through the benefits of international trade.

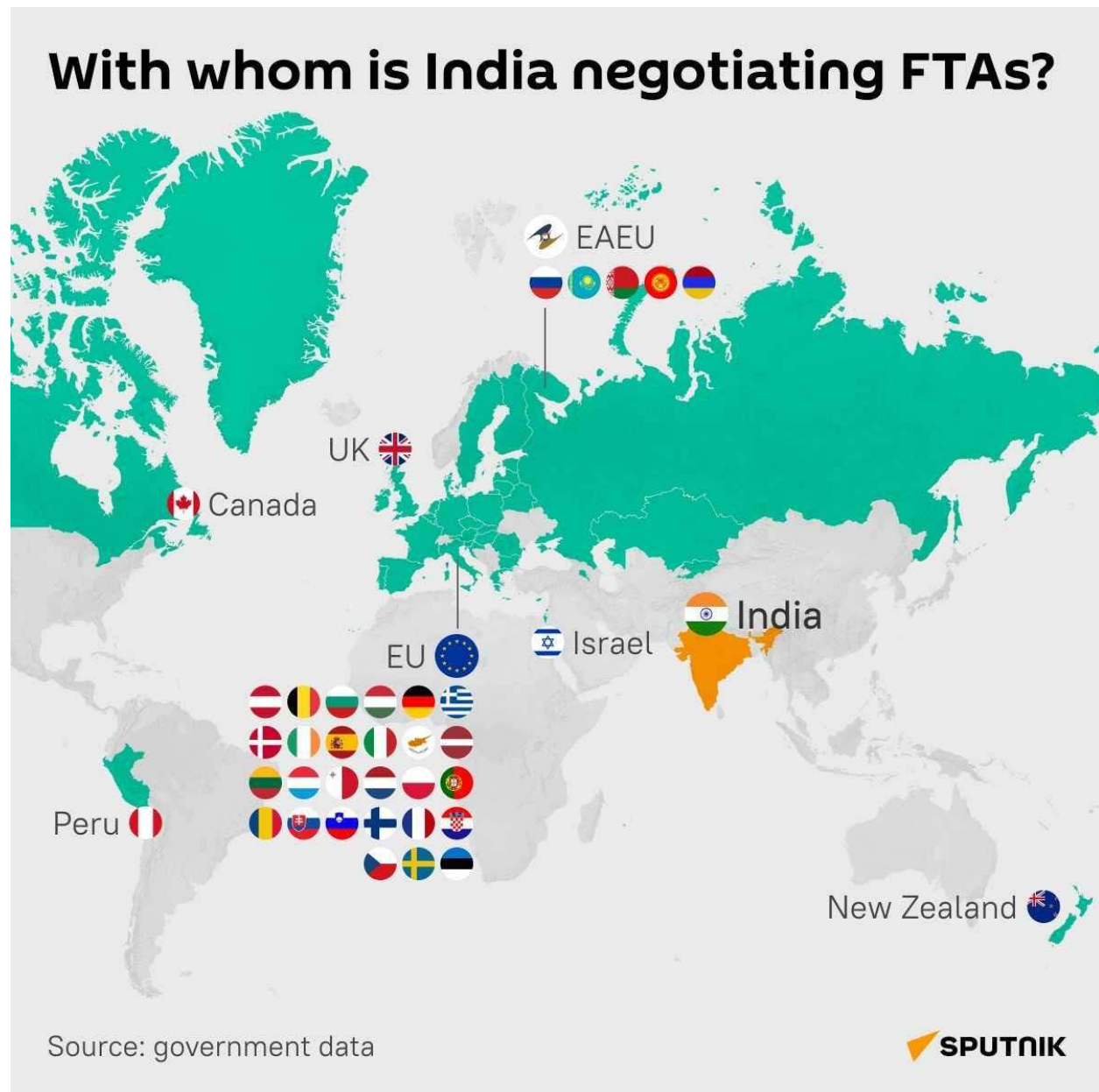
#### 4. What is the current landscape of India's merchandise and service trade?



- India's **current trade landscape** reflects **steady export growth**, deeper global integration, and rising external vulnerabilities.
- Between **2013–14** and **2022–23**, merchandise **exports grew** from **\$314 billion** to **\$451 billion**, led by **petroleum products, telecom equipment, and aluminium**.
- However, **imports expanded faster**, from **\$450 billion** to **\$716 billion**, pushing the merchandise trade deficit to **\$265 billion**.
- This trend has continued into **FY 2024–25**, where total **exports** reached **\$820.93 billion**, driven by a 12.5% surge in services exports, even as merchandise exports remained flat.
- **Imports** rose further to **\$915.19 billion**, widening the **trade deficit to \$94.26 billion**.
- Key contributors to India's exports include **electronics, pharmaceuticals, and engineering goods**, with the **U.S. as its top export destination**.
- India notably overtook **China in U.S. smartphone exports**, but the **upcoming 25% U.S. tariff (from August 2025)** poses risks to export momentum.
- On the **import side**, **crude oil** continues to **dominate, accounting for 23% of imports**, reflecting India's energy dependence.
- The **electronics trade deficit**, now **exceeding \$50 billion**, highlights a persistent gap in domestic high-tech manufacturing.
- Additionally, **rising imports from China** have deepened India's bilateral trade imbalance.
- Despite a **services trade surplus of \$143 billion** and strong remittance inflows (~\$100 billion), India's **current account deficit remains around 2% of GDP**.
- The **trade profile underscores** the need for strategic reforms to reduce **critical import dependencies, enhance domestic industrial capabilities**, and navigate **emerging global trade headwinds**.



## 5. How is India expanding its global reach?



- India is steadily expanding its global **trade footprint** through market diversification, strategic import sourcing, and new trade agreements. While the **United States and UAE** remain key export destinations with the U.S. accounting for over 17% of goods exports in 2022–23, India is increasingly turning to **newer markets like Bangladesh, Indonesia, and the Netherlands**.

- On the **import front**, while China remains the top supplier, **Russia** has emerged as a major supplier, rising from the 20th to the 4th largest import partner within a year.
- This shift, driven by discounted crude oil supplies, saw Russia meet nearly 20% of India's oil needs in 2022–23, reflecting India's growing ability to navigate global energy dynamics.
- India is also reviving its trade agreement strategy. After mixed outcomes from early pacts like the **ASEAN-India FTA and SAFTA**, which led to widening trade deficits, India paused FTA negotiations in the 2010s.
- However, recent years have seen a more calculated comeback.
- To **boost trade resilience** and competitiveness, India has signed **Free Trade Agreements** with the **UAE, Australia and UK** and is in talks with the EU and Canada.
- **Domestic initiatives** such as **Production Linked Incentive (PLI) schemes and Make in India** are also strengthening India's manufacturing and export base.
- By engaging in global platforms like **IPEF, QUAD, and the IMEC** corridor, **India is asserting a more prominent role** in shaping future trade flows.
- These efforts are **positioning India as a diversified and strategically agile** global trading partner.

## 6. How India-US relations evolved in recent times?


### *Phase I: Trade Tensions with the US under Trump (2017–2021)*








Timeline	Events unfolded
2017	<ul style="list-style-type: none"> <li>• <b>Make in India</b> tariffs rise, India increases import duties on electronic items like mobile phones and TVs, aligning with the “<b>Make in India</b>” agenda.</li> <li>• <b>Early trade irritation</b>, The Trump administration begins voicing concerns over India’s market access restrictions and high tariffs on American goods.</li> </ul>
February 2018	<ul style="list-style-type: none"> <li>• Trump criticises 100% tariff: <ul style="list-style-type: none"> <li>▪ Trump publicly criticises <b>India’s tariff on Harley-Davidson motorcycles</b>, despite India halving it to <b>50%</b>.</li> <li>▪ He remarks, “<b>We get nothing; he gets 50% and they think it’s a favour.</b>”</li> </ul> </li> </ul>

March 2018	<ul style="list-style-type: none"><li>• <b>Section 232 tariffs:</b><ul style="list-style-type: none"><li>▪ The US imposes <b>25% tariffs on steel and 10% on aluminium imports</b>, citing national security.</li><li>▪ India is affected, despite being a minor supplier.</li></ul></li><li>• <b>India defers retaliation:</b><ul style="list-style-type: none"><li>▪ India holds off on <b>countermeasures, hoping to resolve the issue diplomatically.</b></li></ul></li></ul> <div><p><b>SECTION 232 BACKLASH</b> GLOBAL RETALIATION FOR STEEL AND ALUMINUM TARIFFS</p><table><thead><tr><th>COUNTRY</th><th>Retaliation Value</th><th>Retaliated Products</th></tr></thead><tbody><tr><td>CANADA</td><td>\$12.6 billion in retaliation</td><td>Steel products, aluminium products, lawn mowers, washing machines, refrigerators, dishwashers, chemicals, paper products, bourbon</td></tr><tr><td>EU</td><td>\$7.1 billion in retaliation</td><td>Steel products, aluminium products, rice, cranberries, bourbon, corn, peanut butter, orange juice, motorcycles, motor boats, cigarettes, denim</td></tr><tr><td>CHINA</td><td>\$2.7 billion in retaliation</td><td>Steel products, aluminium products, pork, buses, auto, wine</td></tr><tr><td>MEXICO</td><td>\$3.6 billion in retaliation</td><td>Steel products, pork, cold cuts, apples, grapes, cranberries, cheese, lamps</td></tr><tr><td>TURKEY</td><td>\$1.8 billion in retaliation</td><td>Steel products, coal products, nuts, fuel wood, auto, rice, tobacco</td></tr><tr><td>INDIA</td><td>\$1.2 billion in retaliation</td><td>Steel products, almonds, chemicals, apples, lentils, walnuts, chickpeas</td></tr></tbody></table><p>FINANCE.SENATE.GOV</p></div>	COUNTRY	Retaliation Value	Retaliated Products	CANADA	\$12.6 billion in retaliation	Steel products, aluminium products, lawn mowers, washing machines, refrigerators, dishwashers, chemicals, paper products, bourbon	EU	\$7.1 billion in retaliation	Steel products, aluminium products, rice, cranberries, bourbon, corn, peanut butter, orange juice, motorcycles, motor boats, cigarettes, denim	CHINA	\$2.7 billion in retaliation	Steel products, aluminium products, pork, buses, auto, wine	MEXICO	\$3.6 billion in retaliation	Steel products, pork, cold cuts, apples, grapes, cranberries, cheese, lamps	TURKEY	\$1.8 billion in retaliation	Steel products, coal products, nuts, fuel wood, auto, rice, tobacco	INDIA	\$1.2 billion in retaliation	Steel products, almonds, chemicals, apples, lentils, walnuts, chickpeas
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2018–2019	<ul style="list-style-type: none"><li>• <b>Trade rhetoric escalates:</b><ul style="list-style-type: none"><li>▪ Trump continues criticising India’s trade practices.</li><li>▪ Negotiations on resolving issues like medical devices and data localisation stall.</li></ul></li></ul>																					
June 2019	<ul style="list-style-type: none"><li>• <b>US revokes GSP status:</b><ul style="list-style-type: none"><li>▪ The US removes India from the Generalized System of Preferences (GSP), ending duty-free access to <b>\$5.6 billion</b> worth of Indian exports.</li></ul></li><li>• <b>India retaliates:</b><ul style="list-style-type: none"><li>▪ India imposes retaliatory tariffs on <b>28 US products, including almonds, walnuts, and pulses. Duties on some items reach up to 120%.</b></li></ul></li></ul>																					

<p><b>November 2019</b></p>	<ul style="list-style-type: none"> <li>• <b>Defence ties continue strong, India and the US conduct their first tri-service military exercise, "Tiger Triumph."</b></li> <li>• <b>Despite trade disputes, defence cooperation strengthens.</b></li> </ul> 
<p><b>2020–2021</b></p>	<ul style="list-style-type: none"> <li>• <b>Talks continue, but no major breakthrough.</b></li> <li>• <b>While working-level discussions persist, key trade issues remain unresolved, including those related to dairy, e-commerce, and price controls on pharmaceuticals.</b></li> </ul>

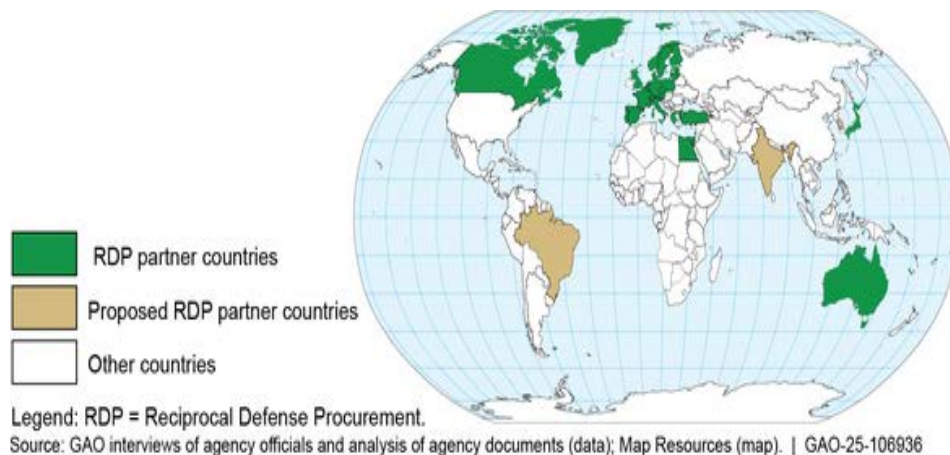
***Phase II: Biden Presidency & Trade Reset***



- **During Joe Biden's presidency, India–US trade relations witnessed a reset, marked by record trade volumes, high-tech collaboration, and strategic defence cooperation.**
- **Bilateral trade peaked at US\$128.55 billion in FY2023, making the US India's largest trading partner. Key exports from India included**

**pharmaceuticals, IT services, and auto parts**, while imports from the US spanned **energy, defence equipment, and technology**.

- On the strategic front, the US and India **finalised the MQ-9B drone deal**, signed the **Security of Supply Arrangement (SOSA)**, and moved forward on the **Reciprocal Defense Procurement (RDP)** agreement to enhance defence manufacturing access.



- A landmark deal between **GE and HAL** to co-produce **F414 jet engines** in India further deepened aerospace ties.
- Tech diplomacy surged with the launch of the **Initiative on Critical and Emerging Technologies (iCET)** and **INDUS-X**, covering AI, semiconductors, and quantum computing. A **US–India Semiconductor Task Force** was also formed to boost chip manufacturing in India.
- Energy trade expanded through increased **LNG and oil imports**, alongside cooperation in **green hydrogen and renewables** under the **Strategic Clean Energy Partnership**.





- To ensure resilient supply chains, the **India–US Strategic Trade Dialogue** streamlined policies for defence and high-tech trade.
- Biden’s term thus **transformed India–US ties** from reactive engagement to a **multi-sectoral strategic partnership**, laying groundwork for deeper cooperation in the years ahead.



## 7. India–US trade Relations enter phase III: Navigating Trump’s Tariff Turbulence.

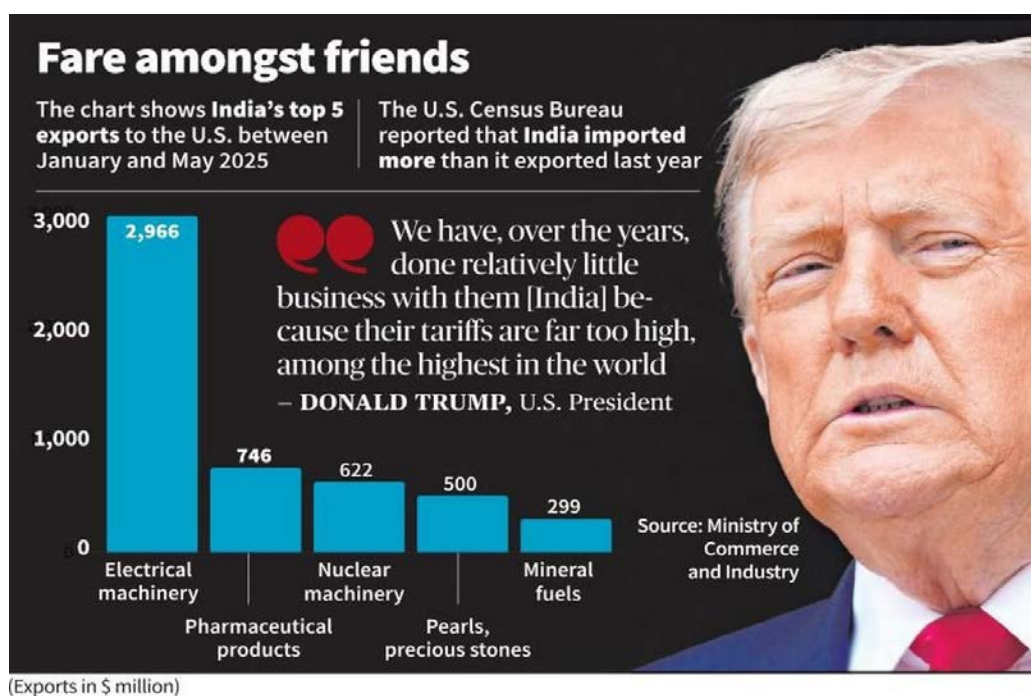



- As Donald Trump begins his second term as US President, **India's trade relations with the United States have entered a tense and uncertain phase.**
- The **announcement of fresh 25% tariffs on Indian goods** coupled with additional penalties over India’s oil and arms deals with Russia

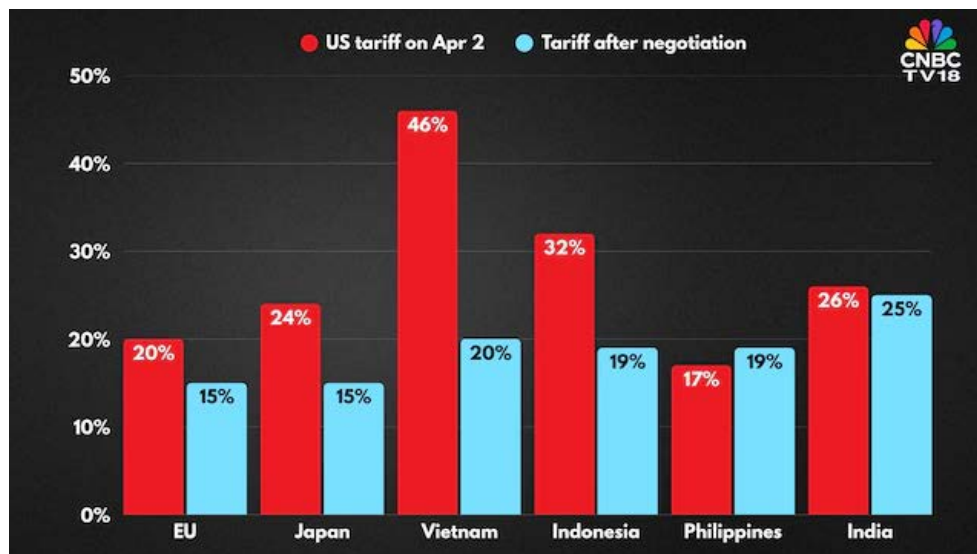


has cast a **shadow over bilateral trade ties and economic forecasts for 2025.**

- President Trump's renewed protectionist stance, calling India the **"tariff king,"** signals a **hardening of trade policy.**
- Despite India's average tariff rates being WTO-compliant and lower than those of many developed countries, it has become a fresh target in Trump's tariff war.
- While the penalty amount remains unspecified, early projections suggest **India's GDP growth could fall by 0.2%, with ICRA already trimming its forecast from 6.5% to 6.2%.**
- Markets reflected the nervousness Indian stock exchanges opened in the red, and trade-sensitive sectors saw immediate sell-offs.
- India's **\$45 billion trade surplus with the US** is clearly under scrutiny.
- Additionally, **Trump's potential restrictions on skilled and unskilled immigration** have stirred concern among **India's outsourcing and IT sectors**, which earn over 80% of their revenues from the US.



Aspect	Highlights
<b>Announcement Date</b>	July 30, 2025
<b>Tariff Rate</b>	25% on Indian imports
<b>Effective Date</b>	August 1, 2025
<b>Additional Penalty</b>	Unspecified penalty related to India's Russia trade
<b>Justification</b>	High Indian tariffs & trade barriers; Russia energy and military imports
<b>Impacted Sectors (Likely)</b>	Pharmaceuticals, textiles, electronics, agriculture, steel, machinery
<b>Current Status of Trade Deal</b>	Not finalized; negotiations ongoing
<b>Indian Government Response</b>	No official public comment yet; talks expected to resume mid-August
<b>Trump's Quote</b>	<p>“India will therefore be paying a tariff of 25%, plus a penalty, starting August first.”</p>  <p><b>"India, Russia Can Take Their Dead Economies Down Together": Donald Trump</b></p>



## 8. Mention about India-US trade?

- The US remained India's largest trading partner for the fourth consecutive year in 2024-25 with bilateral trade valued at USD 131.84 billion.



## INDIA'S TRADE WITH THE U.S. A PROFITABLE DEAL

Financial Year	Exports (₹ Lakh Crore)	Imports (₹ Lakh Crore)	Total Trade (₹ Lakh Crore)	Trade Balance (₹ lakh crore)
2023-2024	₹6.75	₹3.67	₹10.42	₹3.07
2022-2023	₹6.84	₹4.43	₹11.26	₹2.41
2021-2022	₹6.63	₹3.77	₹10.40	₹2.86
2020-2021	₹4.49	₹2.51	₹7.08	₹1.98
2019-2020	₹4.62	₹3.12	₹7.74	₹1.50



## TOP 5 PRODUCTS INDIA IMPORTS FROM US

Product	Import Value (₹ Lakh Crore)	Tariff Rate
Petroleum Crude	₹9.51	7.5% - 8%
Gold	₹4.22	20%
Petroleum Products	₹2.79	7.5% - 8%
Electronic Components	₹2.33	2.5% - 0.5%
Coal & Coke	₹2.10	Less than 5%



## Top 5 Products India sells to America

Products	Export Value (₹ Lakh Crore)	Tariff
Petroleum	₹4.31	0% - 0.75%
Medicines & Pharma	₹1.49	0% - 0.75%
Telecom Instruments	₹1.46	0%
Pearls & Precious Stones	₹0.99	0%
Electrical Machinery & Equipment	₹0.92	0%

SOURCE  
Ministry of Commerce, Government of India  
(Budget Year 2024-25)

## 9. How has India responded?



- India has adopted a calibrated multi-pronged strategy in response to the U.S. President Donald Trump's announcement of a **25% tariff** on Indian imports and an additional penalty linked to New Delhi's continued trade relations with Russia.
- The Indian government **expressed concern** over the unexpected tariff escalation but **reiterated its commitment to safeguarding** national economic interests while keeping diplomatic channels with Washington open.
- The **Ministry of Commerce** stated that India is "studying the implications" of the U.S. decision and will take all necessary steps to "**secure the interests of Indian businesses, farmers, and MSMEs.**"

- **Diplomatic backchanneling:** Leveraging the personal rapport between Prime Minister Modi and President Trump to keep doors open for negotiations.
- **Export diversification:** Accelerating efforts to reduce dependence on the US market by pushing trade with Africa, Latin America, ASEAN, and Europe.
- **China Plus One strategy:** With US firms seeking to move supply chains out of China, India is vying to position itself as a preferred destination—though a NITI Aayog report noted limited success so far.
- To attract investment and manufacturing shifts, India is simplifying tax laws and pushing schemes like the **Production Linked Incentive (PLI)** to support domestic manufacturing and export growth.
- In its official response, India emphasized that **it remains committed** to negotiating a **“fair and reciprocal”** trade deal with the U.S., much like the one recently concluded with the United Kingdom.
- **“Our priority is to ensure fairness in global trade and protect the interests of Indian producers,”** said a senior official from the Ministry of Commerce.

#### 10. Mention about impact of USA tariff on key sectors in India?

- **US President Donald Trump’s 25% tariff on Indian exports** from Aug. 1 is expected to **hurt** a spate of sectors from makers of **apparel and generic drugs to jewelry and auto component firms.**

Sector	Impact
Gems & Jewelry	<ul style="list-style-type: none"> <li>• The tariff is a <b>“deeply concerning development”</b> that could disrupt <b>critical supply chains</b> and threaten <b>thousands of livelihoods</b>, with the <b>gems sector</b> in particular <b>“severely impacted”</b> as per <b>India’s Gem and Jewellery Export Promotion Council.</b></li> </ul>



	<ul style="list-style-type: none"> <li>• The US accounts for over \$10 billion worth of India's exports from this industry and a blanket tariff will “inflate costs, delay shipments, distort pricing, and place immense pressure on every part of the value chain.</li> </ul>
<b>Pharmaceuticals</b>	<ul style="list-style-type: none"> <li>• India is the largest exporter of non-patented drugs to the US at an approximate annual value of \$8 billion.</li> <li>• Shares of some of the country's biggest companies, including Sun Pharmaceutical Industries Ltd., Dr. Reddy's Laboratories Ltd. and Cipla Ltd., fell as they receive at least 30% of their revenue from the US.</li> <li>• Overall, medicines from Indian companies provided nearly \$220 billion in savings to the US health care system in 2022 and a total of \$1.3 trillion in the decade through 2022.</li> </ul>
<b>Textiles, Apparels</b>	<ul style="list-style-type: none"> <li>• Home fabrics, apparel, and shoe makers in India serve the global supply chains of large US retailers, including companies such as The Gap Inc., Pepe Jeans, Walmart Inc. and Costco Wholesale Corp.</li> <li>• India earlier sought lower tariffs than countries like Vietnam which would give a comparative advantage to this industry.</li> <li>• Shares of these firms fell in early trading in Mumbai. Vardhman Textiles Ltd. was down 6%, Welspun Living Ltd. 6.5% and Indo Count Industries Ltd. dropped 7.4%.</li> </ul>

<b>Electronics</b>	<ul style="list-style-type: none"> <li>• <b>India overtook China</b> to become the <b>top source of smartphones</b> sold in the US, after <b>Apple Inc. shifted to assemble</b> more of its iPhones in the <b>South Asian country</b>.</li> <li>• This could be under <b>risk after the latest levy</b>.</li> <li>• The impact, however, will not be as straightforward as the <b>Trump administration in April exempted smartphones, computers, and other electronics</b> from reciprocal tariffs.</li> <li>• In case <b>Trump uses Section 232</b> powers to levy duties on <b>imports of iPhones into the US</b>, it could <b>force Apple to squeeze suppliers</b> including those in India.</li> </ul>												
<b>Indian Refiners</b>	<ul style="list-style-type: none"> <li>• Shares of state-run refiners such as <b>Indian Oil Corp., Bharat Petroleum Corp. and Hindustan Petroleum Corp.</b> fell, along with private sector firms like <b>Reliance Industries Ltd.</b> dropping as much as <b>2%</b>.</li> <li>• <b>India gets nearly 37% of its oil imports from Russia.</b></li> </ul> <div data-bbox="646 1346 1307 1717"> <table border="1"> <caption>SHARE OF INDIA'S FY25 OIL IMPORTS</caption> <thead> <tr> <th>Country</th> <th>Share (%)</th> </tr> </thead> <tbody> <tr> <td>Russia</td> <td>35.4%</td> </tr> <tr> <td>Iraq</td> <td>19.2%</td> </tr> <tr> <td>UDI ARABIA</td> <td>14.1%</td> </tr> <tr> <td>UAE</td> <td>10.1%</td> </tr> <tr> <td>Others</td> <td>21.2%</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> <li>• Those <b>barrels come at a discount to market rates</b> and have been a key support for <b>gross refining margins</b>.</li> </ul>	Country	Share (%)	Russia	35.4%	Iraq	19.2%	UDI ARABIA	14.1%	UAE	10.1%	Others	21.2%
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	<ul style="list-style-type: none"><li>• If <b>Russian crude is no longer available</b>, the <b>cost of imports will spike</b> and dent refiners' profits.</li><li>• <b>Reliance</b> had <b>signed a deal</b> to buy as much as <b>500,000 barrels a day from Russia</b> this year to become <b>India's largest buyer of Russian crude</b>.</li></ul>
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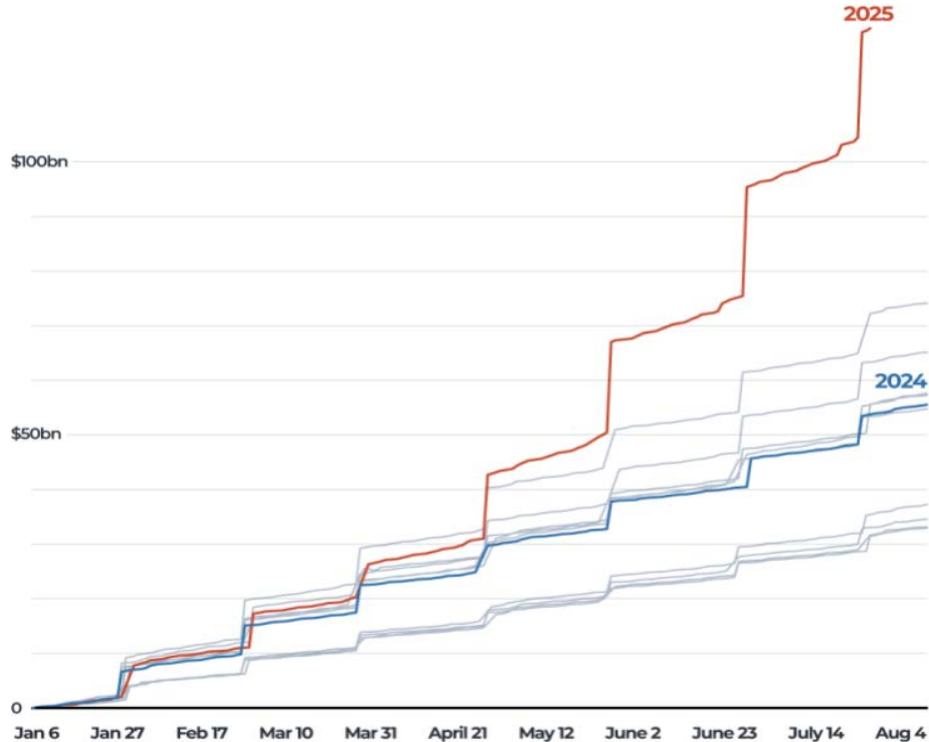
### **11. Has Trump tariff increased revenue in the USA?**

- **Trump's tariffs** have **brought in revenue** from higher duties paid by importers. **Between January 2 to July 25**, the **US Treasury Department data** shows that the **US generated \$124bn this year from tariffs**. This is **131 percent more than the same time last year**.
- In early July, **Treasury Secretary Scott Bessent said this could grow to \$300bn by the end of 2025** as collections accelerate from Trump's trade campaign.

UNITED STATES

## Trump's tariffs have brought in revenue

The US Treasury Department reports that tariff revenues reached \$124 billion this year as of July 25 — a 131 percent increase compared to the same period last year.



## 12. Has Donald Trump killed the WTO?

- The **WTO** sets the global ground rules for trade, negotiating agreements, enforcing policies, and arbitrating disputes when countries believe rules have been broken.
- Earlier this year, world leaders gathered in **Geneva, Switzerland**, to mark the **30th anniversary** of the **World Trade Organization (WTO)**, the international body **established in 1995** to **reduce global trade barriers** and promote sustainable development.
- **Director-General Ngozi Okonjo-Iweala** spoke at the event, underscoring the **WTO's role as a foundation of predictability** amid the **current turmoil** surrounding global trade.
- **Trump has criticised the WTO** for **prioritising low prices** over protecting homegrown jobs and wages.

- **Trump** believes the **US** has **lost out economically to China**.
- **China's 2001 WTO entry allowed cheap goods** into a market in which **US manufacturing** was already struggling.
- From **1974 to 2024**, **US trade deficits totalled \$20 trillion**, while **China's trade surpluses hit nearly \$7 trillion**.
- Trump has argued that this is a national emergency.



## 13. What are FTAs?

### WHAT IS A FREE TRADE AGREEMENT (FTA)?

It is an agreement between two or more countries to reduce barriers to imports and exports or the movement of goods and services across borders.



#### Free Trade Agreement Pros and Cons

PROS	CONS
<ul style="list-style-type: none"> <li>Increased Economic growth</li> <li>Lower Government Spending</li> <li>Technology transfer</li> </ul>	<ul style="list-style-type: none"> <li>Increased Jobs outsourcing</li> <li>Poor working conditions</li> <li>Degradation of natural resources</li> </ul>

An FTA aims to facilitate trade and remove **TRADE BARRIERS**

- **Tariffs:** Fees normally collected by a country's customs authorities
- **Non-tariff barriers:** regulations, standards, quotas, subsidies, certification procedures etc.



**Duty free flow of goods and services between FTA countries if it satisfies the RULES OF ORIGIN (RoO)**

- RoO will determine if a product can be considered as originating within the FTA
- RoO is the passport allowing the free flow of a product

#### In an FTA, countries receive **MOST FAVOURED NATION (MFN) status**

- To ensure that all the countries that form part of the agreement receive the same treatment, all the relevant countries are given MFN status
- The same tariffs must be applied to all countries that form part of the AICFTA

#### Pros and cons of Most-Favoured-Nations Status

PROS	CONS
<ul style="list-style-type: none"> <li>Access to a larger market</li> <li>Lowered cost of exports</li> <li>Products become more competitive</li> <li>More opportunities for growth</li> </ul>	<ul style="list-style-type: none"> <li>No protections against cheaper goods produced by foreign countries</li> <li>Local agricultural industry still can't compare with subsidised U.S. and E.U. markets</li> </ul>

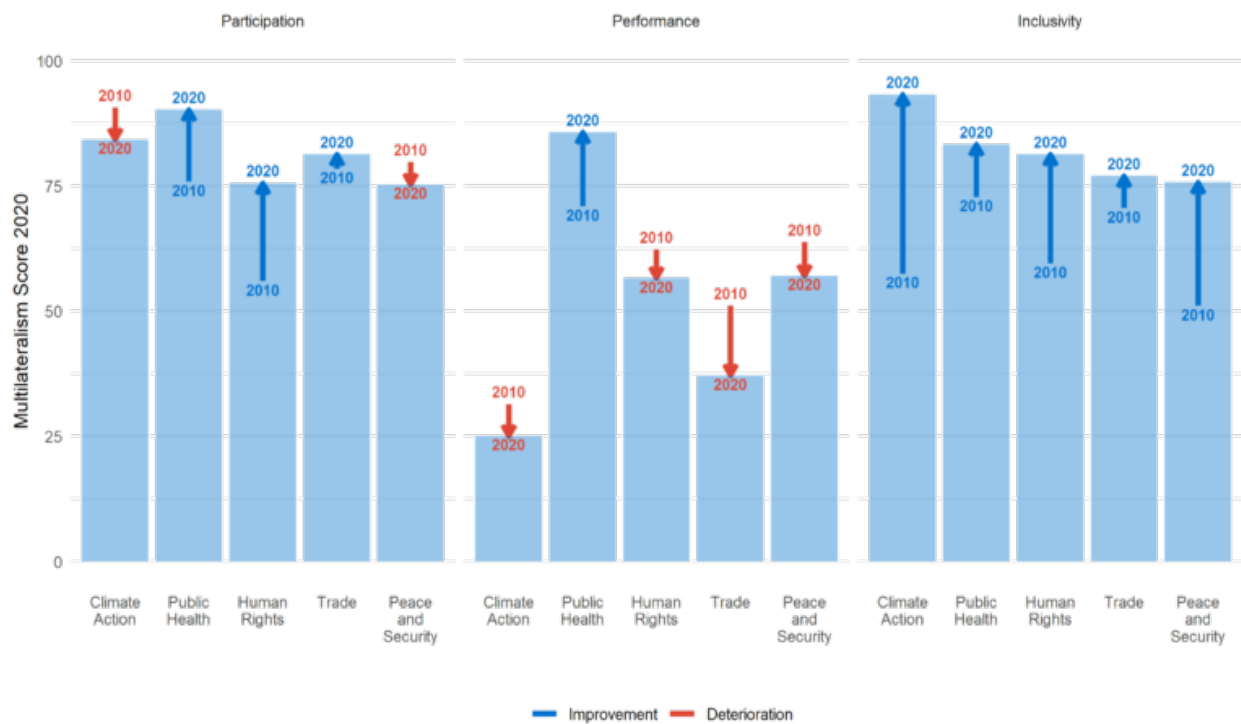
#### An FTA is the opposite to **PROTECTIONISM**

- An FTA aims to liberalize trade, allowing for the free flow of goods and services

**But an FTA does not remove all forms of PROTECTIONISM**

Trade unions have an opportunity to demand policies that will continue to protect communities and jobs as well as the creation of decent jobs.

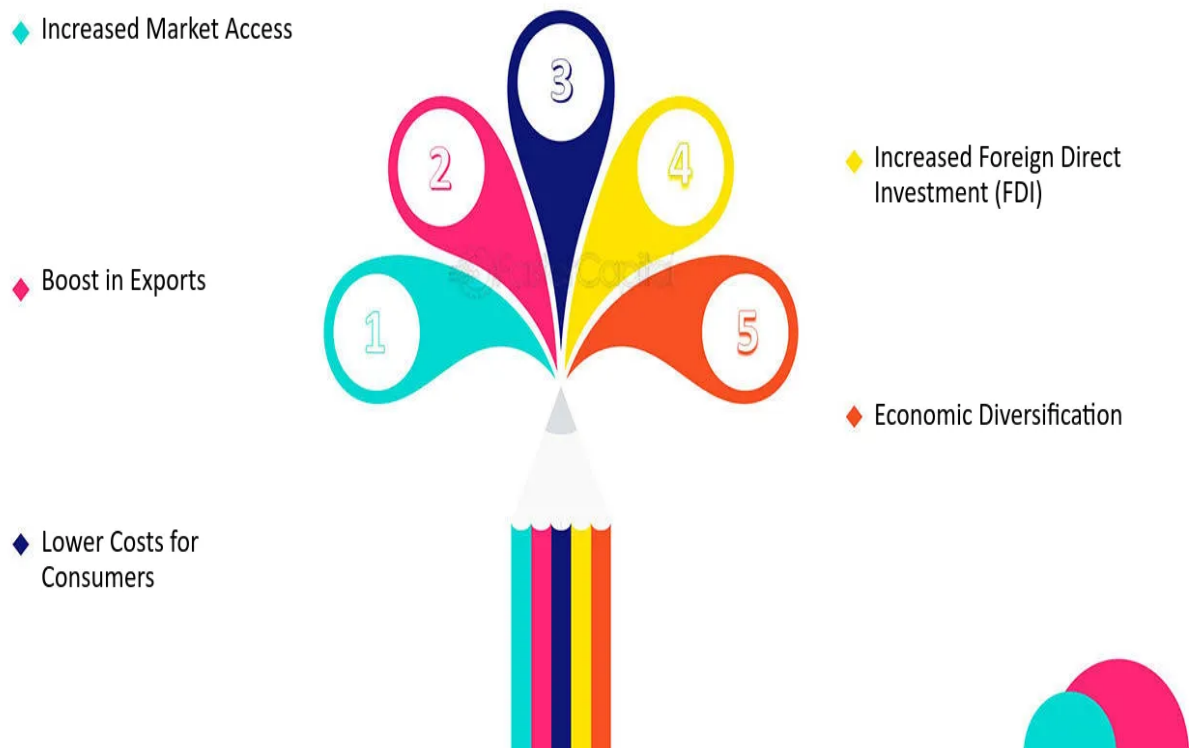
## 14. How FTA Push led to The Decline of Multilateralism & Rise of Bilateral FTAs?



SOURCE: IEP

- India's evolving trade strategy has undergone a **decisive pivot** from backing multilateral trade pacts to proactively pursuing bilateral free trade agreements (FTAs).
- The change signals a deeper realignment of India's global economic policy in **response to geopolitical realities** and past trade imbalances.
- **Multilateral negotiations** under the WTO, particularly the **stalled Doha Round**, left India disillusioned.
- Concerns **over unequal commitments** and **threats to domestic industries** led India to **exit** mega trade pacts like the Regional Comprehensive Economic Partnership (**RCEP**) in **2019**.
- Since then, **India has leaned heavily into bilateral FTAs** to assert its economic interests on clearer, more favorable terms.

## Economic Benefits of Free Trade Agreements



### 15. Enlist FTAs signed by India so far?




- India has **inked trade deals** with **Sri Lanka, Bhutan, Thailand, Singapore, Malaysia, Korea, Japan, Australia, the UAE, Mauritius, the 10-nation bloc ASEAN** (Association of Southeast Asian Nations), and **four European nations' bloc EFTA**, (Iceland, Liechtenstein, Norway, and Switzerland) and with **UK** being the most recent one.
- In addition, India is negotiating trade agreements at present with a number of its trading partners. The **negotiations** are underway with the **US, Oman, the European Union (EU), Peru, and Israel**.
- **Talks with Canada** for a similar pact were put on **hold** due to certain political issues.
- These trade agreements have contributed to **enhance market access, reduce tariff and non-tariff barriers, strengthen strategic partnerships, and support domestic industry** through balanced trade facilitation.
- Collectively, these FTAs reflect a **strategic shift** towards high-quality, comprehensive trade agreements designed to support India's domestic manufacturing, services exports, and integration into resilient global value chains.



## 16. Mention about the India–UAE CEPA & India–Australia ECTA?

- **India’s bilateral trade strategy** is bearing fruit as recent **Free Trade Agreements (FTAs)** with the **United Arab Emirates** and **Australia** show **tangible gains in export volumes and tariff advantage utilisation**.
- According to a recent **Commerce Ministry report**, the number of **Preferential Certificates of Origin (CoOs)** documents that enable exporters to **claim reduced tariffs under FTAs** has **risen significantly in FY25**, reflecting increased awareness and benefits of India’s **FTA regime**.

Various FTA	Key Highlights
India–UAE CEPA	 <ul style="list-style-type: none"> <li>• The <b>India–UAE Comprehensive Economic Partnership Agreement (CEPA)</b>, signed in 2022, has emerged as a <b>key pillar of India’s West Asia outreach</b>.</li> </ul>

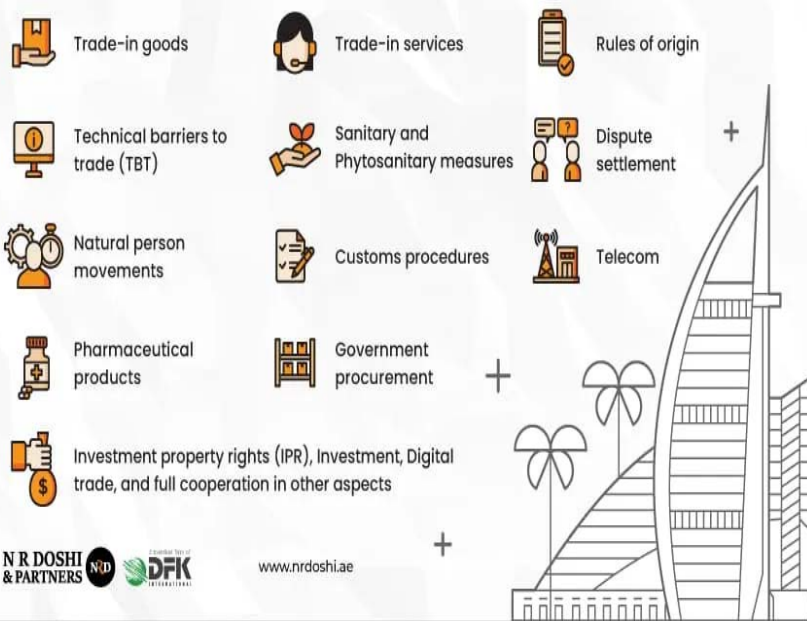


- In **FY25**, **CoO** issuances under **CEPA** jumped by **24.7%**, rising from **98,104** in **FY24** to **122,306**.
- **April 2025** saw a **35.4%** rise in certificates issued year-on-year, while **May** recorded a **28.3% increase**.
- The surge is attributed to **simplified documentation, faster digital processing, and growing demand from UAE-based buyers** in sectors like **textiles, chemicals, electronics, machinery, and processed food**.

***In terms of trade value:***

- India's **exports to the UAE** grew from **\$31.61 billion** in **FY23** to **\$36.64 billion** in **FY25**.
- **Imports** rose from **\$53.23 billion** to **\$63.42 billion**, pushing **total trade** to **\$100.06 billion**.

**KEY FEATURES OF CEPA BETWEEN INDIA AND THE UAE**



## India–Australia ECTA



- India's trade deal with **Australia** — the **Economic Cooperation and Trade Agreement (ECTA)** — signed in **December 2022**, has also gained traction.
- **CoOs under ECTA** grew by **19.1%** to **77,234** in **FY25**, up from **64,864** in **FY24**.
- The first two months of **FY26** continued the upward trend, with **13.3% growth in April** and **7.4% in May**.

Exporters from key sectors — including **gems and jewellery, leather goods, engineering items, and IT services** — have increasingly leveraged duty-free or low-tariff access to the Australian market.

**Bilateral trade figures reflect the impact:**

- **Exports to Australia** increased to **\$8.58 billion** in **FY25**, from **\$6.95 billion** in **FY23**.
- **Imports** stood at **\$15.53 billion**, driven largely by **coal, education services, and metals**.

	<p style="text-align: center;">THE  HINDU</p> <h3>Boosting ties</h3> <p>The India-Australia Economic Cooperation and Trade Agreement (ECTA) seeks to encourage trade between the two countries. The agreement will benefit labour-intensive sectors, apart from increasing quotas for Indian chefs and yoga teachers in Australia</p> <div style="display: flex; justify-content: space-between;"> <div style="width: 48%;"> <p><b>TRADE IN GOODS</b></p> <ul style="list-style-type: none"> <li>■ Labour-intensive Indian sectors such as textiles, gems and jewellery, leather, food and farm produce and automobiles to benefit</li> <li>■ Australian coal, mineral ores and wines to get easier entry</li> <li>■ Working group to explore market access issues for both sides in whisky and other alcoholic beverages</li> </ul> </div> <div style="width: 48%;"> <p><b>TRADE IN SERVICES</b></p> <ul style="list-style-type: none"> <li>■ Indian students in Australia to get work visas for two to four years</li> <li>■ Australian firms in business, communication, construction and engineering services to gain</li> <li>■ Fast track approval for patented, generic and biosimilar medicines</li> </ul> </div> </div>
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## 17. Why does the India-UK FTA mark a key policy shift in India's trade policy?



- As India races towards becoming a **\$5 trillion economy by 2028**, its **foreign trade policy** is undergoing a fundamental transformation.
- The recently signed **India–UK Free Trade Agreement (FTA)** is more than just a bilateral economic pact, it signals a **strategic shift** in how India views trade: not as a peripheral economic lever, but as a **central tool for global positioning and inclusive growth**.

- The agreement, **India's most comprehensive deal** with a developed country yet, reflects the country's **maturing trade outlook** amid a fragmented global order and fading multilateralism.
- Historically, trade has been used as a tool for **influence, security, and sustainability** and India is now clearly **aligning** with this approach.
- Recent FTAs with the **UAE, Australia, EFTA**, and now the **UK** showcase **India's evolution** from a defensive player to a **proactive negotiator** leveraging its **large domestic market, competitive industries, and growing geopolitical heft**.
- The **India-UK deal**, covering **99% of Indian exports**, will provide a **major boost** to key sectors such as **textiles, gems & jewellery, toys, leather, and seafood** all dominated by MSMEs and generating **rural and semi-urban employment**.
- "This is a milestone moment that will uplift India's global trade profile and empower our MSMEs," said Commerce Minister Piyush Goyal.

## INDIA-UK FTA INKED






**What is an FTA (Free Trade Agreement)?**

A Free Trade Agreement is a deal between countries to make trade easier by:

- ✓ Reducing or removing import and export duties
- ✓ Lowering trade barriers for goods and services
- ✓ Covering areas like investment, intellectual property, and government procurement

Source: Ministry of Commerce & Industry

Key Takeaways

- India and the UK have signed CETA, a landmark deal to strengthen economic ties and boost bilateral trade.
- The agreement eliminates tariffs on 99% of India's exports to the UK, covering nearly 100% of the trade value.
- Tariffs on marine products, textiles, leather, and processed foods have been reduced from up to 70% to zero.
- A big win for Indian Agriculture as UK markets open up duty free for nearly all Indian Agri exports, with limited exceptions
- Services commitments cover IT, financial, education, healthcare, and other high-value sectors.
- Mobility provisions simplify entry for business visitors, professionals, and intra corporate transferees.
- UK will allow 1,800 Indian chefs, yoga instructors, and artists annually under contractual service quotas.
- The Double Contribution Convention will save Indian companies and workers over ₹4,000 crore by removing dual social security payments.
- Consumers will benefit from wider product choice, lower prices, and strong digital trade protections.



- The FTA represents India's shift from protectionism to pragmatism. It prioritizes employment-rich sectors, talent mobility, resilient supply chains, and digital services — themes expected to dominate future negotiations with the EU and the US, both of which are on the horizon.
- India is now crafting forward-looking trade agreements that not only serve current exporters but also open doors for next-generation sectors, from green technology to fintech.



## 18. What Can We Expect from the India–UK FTA?





Key Areas	Outcome
<b>Doubling Bilateral Trade</b>	<ul style="list-style-type: none"> <li>• The FTA aims to dramatically scale up two-way trade between India and the UK by reducing tariff and non-tariff barriers.</li> <li>• Enhanced trade flows will span goods, services, investment, and technology.</li> <li>• This target is supported by complementary economies like <b>India's manufacturing and services sectors that meet the UK's demand for cost-effective</b>, high-quality goods and skilled labor, while <b>India seeks capital, advanced tech</b>, and access to a developed market.</li> </ul>
<b>Duty-Free Access to 99% of Indian Exports to the UK</b>	<p>The agreement allows nearly <b>99% of India's exports</b> to enter the UK with zero tariffs.</p> <p>Key products include;</p> <ul style="list-style-type: none"> <li>• <b>Apparel, textiles, leather, and footwear:</b> Sectors that face high tariffs currently will see increased cost competitiveness.</li> <li>• <b>Gems and jewellery:</b> One of India's top export earners, now gains better access in a high-income market. <ul style="list-style-type: none"> <li>▪ <b>Agricultural and marine products:</b> Better access to European food supply chains.</li> </ul> </li> <li>• This will especially benefit exporters struggling with cost margins and tariff-related losses, and encourage new entrants into export markets.</li> </ul>
<b>Boost to Labor-Intensive, MSME-Driven Sectors</b>	<p>Sectors like <b>textiles, handicrafts, toys, sports goods, leather, and fisheries</b> are:</p> <ul style="list-style-type: none"> <li>• Heavily concentrated in rural and semi-urban India.</li> <li>• Largely driven by <b>Micro, Small &amp; Medium Enterprises (MSMEs)</b> and artisan clusters.</li> </ul>

	<ul style="list-style-type: none"> <li>• Among India's <b>largest employment generators</b>, especially for women.</li> </ul> <p><b>Access to UK markets</b> will help these units scale up, formalize operations, and adopt higher standards. The <b>spillover effect will be seen in backward linkages like logistics, packaging, and warehousing.</b></p>
<b>Opportunities in Engineering Goods, Auto Components, Chemicals, IT, Finance, Legal, Education, and Digital Services</b>	<ul style="list-style-type: none"> <li>• <b>Engineering and auto parts:</b> India can integrate more deeply into the UK's industrial supply chains. These are already high-growth export sectors.</li> <li>• <b>Organic chemicals:</b> Key in pharmaceutical and industrial use, these face fewer non-tariff restrictions post-FTA.</li> <li>• <b>IT and digital services:</b> India's globally competitive IT sector will benefit from easier cross-border data flows, simplified service regulations, and e-commerce facilitation.</li> <li>• <b>Professional services:</b> Indian lawyers, architects, and teachers gain recognition for their qualifications, creating service export avenues.</li> <li>• <b>Education:</b> Joint degree programs and university partnerships will increase.</li> <li>• <b>Fintech and digital trade:</b> Encouraged through smoother compliance, cybersecurity norms, and interoperable systems.</li> </ul>
<b>Mobility of Indian Professionals</b>	<p><b>A standout feature of the FTA is the liberalized visa regime, which includes:</b></p> <ul style="list-style-type: none"> <li>• Simplified and faster visa processing for Indian workers, students, and professionals.</li> <li>• Eased norms for intra-corporate transferees and short-term service providers.</li> <li>• Better recognition of Indian professional</li> </ul>

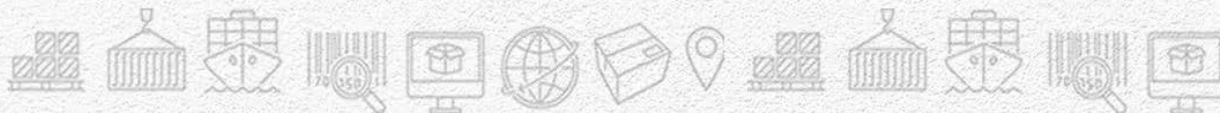
	<p>qualifications and academic degrees.</p> <p><b>This is particularly beneficial for India's large youth population and skilled services workforce. Sectors like IT, healthcare, education, finance, and law will see major gains.</b></p>
<p><b>Support for Inclusive Growth – Women, MSMEs, Farmers, Startups, Informal Sector</b></p>	<p>The FTA includes dedicated chapters or side agreements aimed at:</p> <ul style="list-style-type: none"> <li>• <b>Women-led enterprises:</b> Special incentives and capacity-building support.</li> <li>• <b>MSMEs:</b> Trade facilitation, digital platforms for cross-border B2B linkages, and better financing access.</li> <li>• <b>Fishermen and farmers:</b> Preferential treatment for marine and agri-exports.</li> <li>• <b>Startups:</b> Access to technology partnerships, venture capital, and innovation hubs.</li> <li>• <b>Informal sector:</b> Policy nudges to formalize and integrate them into export supply chains.</li> </ul> <p>This makes the FTA <b>not just export-focused but livelihood-focused</b>, promoting deeper rural and Tier 2/3 city participation in global trade.</p>
<p><b>Job Creation – Over 1 Million Jobs in Five Years</b></p>	<p>The estimated job creation includes:</p> <ul style="list-style-type: none"> <li>• <b>Direct jobs</b> in export-related manufacturing (textiles, leather, toys, marine).</li> <li>• <b>Indirect jobs</b> in packaging, logistics, retail, warehousing, and compliance support.</li> <li>• <b>Service sector employment:</b> IT, financial services, education, hospitality, and cross-border freelancing.</li> <li>• <b>Women and youth:</b> A large share of new employment is expected to benefit them due to MSME and startup linkages.</li> </ul>



# INDIA-UK FTA INKED



**ADVANCING WOMEN'S  
LEADERSHIP IN GLOBAL TRADE**



**Women in tech, crafts & D2C businesses to gain with cross-border digital payments, data flow, & cybersecurity**



**Global online marketplaces to open up for rural & urban women**



**Women entrepreneurs can drive innovation in biotech, textiles & beauty with IPR protection**

**Creating Resilient Global Changemakers**



# INDIA-UK FTA INKED



**FROM INDIA'S FARMS TO  
UK'S PREMIUM SHELVES**



**Greater incentives  
for quality, packaging,  
and certification**



**Seafood processing  
plants employing  
thousands of women  
workers to see  
doubling of capacity  
utilisation**

**Empowering producers, elevating products, energising exports**



# INDIA-UK FTA INKED



**UNLEASHING THE POWER OF  
INDIA'S BLUE ECONOMY**



**Indian fishermen to have greater expansion opportunities into UK's \$5.4 bn marine market**



**Better price realisation for our exporters, more income for fisherfolk**



**A sea of opportunities to open for our coastal economy**





# INDIA-UK FTA INKED



**DEAL TO TRIGGER  
CHAIN REACTION**



**Zero duty on chemicals & allied sectors**



**Fertilizers, industrial chemicals, petrochemicals  
stand to gain**



**Exports to surge with greater innovation &  
production, MSMEs to benefit**



**Huge potential to unleash in critical  
chemicals sector**



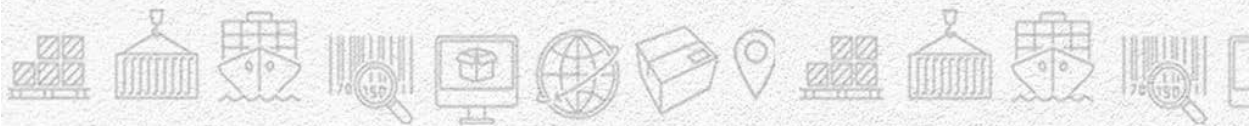
**Chemical Exports poised for a Massive 30-40% Increase in upcoming 2025-26**



# INDIA-UK FTA INKED



**WEAVING A COMPETITIVE EDGE**



**Labour Intensive Sector backed by many women-run MSMEs will flourish**



**More jobs for artisans, weavers, daily-wage labourers in hubs like Tirupur & Kanpur**



**As UK's 4th largest textile supplier, India poised to make bigger inroads into UK market**



**Creating Global Trailblazers in Fashion, Design & Premium Craftsmanship**



# INDIA-UK FTA INKED



**BIG WINS FOR PLASTIC SECTOR**



**Robust demand for plastics with duty-free access**



**Films, sheets, pipes, packaging, tableware & kitchenware to see production surge**



**India has proven manufacturing strength in these segments**



**Increased commercial appeal & competitive edge for 'Make In India'**



# INDIA-UK FTA INKED



**WALKING TALL GLOBALLY**



**Greater brand recognition for our GI products like Kolhapuri chappals**



**Enhanced income for local artisans, boost to jobs, cultural identity**



**Sustainable handmade products to beat margin pressure & become market leaders**



**UK's value conscious Retail & Brand Segment to trigger India's Export Boom**



# INDIA-UK FTA INKED



## MSMEs SET TO SEIZE UK MARKETS

### WINNING THROUGH BILATERAL COOPERATION



Lesser hurdles in certifications  
& logistics



Enhanced exports would mean  
greater demand for skilled workforce



Unique products by MSMEs to be  
protected by robust IP & GI safeguards



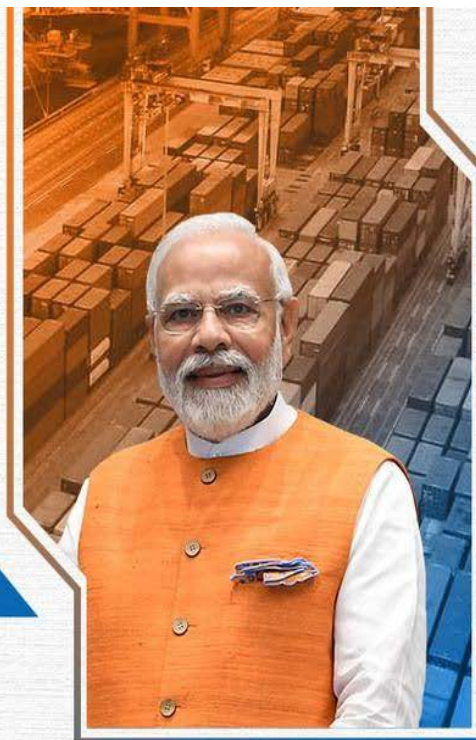
**MSMEs at the Heart of India's Growth Story**





# INDIA-UK FTA INKED

**ACCELERATING MANUFACTURING  
WITH 'MAKE IN INDIA'**



**Electronics exports to scale new heights with zero-duty access**



**Exports of smartphones, optical fiber cables & inverters to strengthen India's foothold in UK market**



**Competitive access for software development & network infrastructure to fuel digital trade growth**

**Advancing Digital Economy Growth**



# INDIA-UK FTA INKED



**WEAVING A COMPETITIVE EDGE**



**Duty-free access for our textiles  
& clothing sector**



**Family-run weaving units & artisan  
clusters in Panipat, Bhadohi & Agra,  
along with designers, dyers &  
embroiderers from Kanchipuram,  
Bhagalpur, Varanasi & Jaipur to benefit**



**GI tags to protect region-specific  
weaves like Banarasi, Chanderi &  
Kanjeevaram**



**Greater Brand Recognition for Heritage Crafts**

## 19. What is the relevance of the topic for UPSC CSE?

- **For Prelims:** India-US Relations, LEMOA, COMCASA, BECA, Silicon Valley, International Bank for Reconstruction and Development, Exercise Malabar, NISAR mission, NASA's Deep Space Network, Chandrayaan-3, Digital services tax, CAATSA, US-India initiative on Critical and Emerging Technology.
- **For Mains:** Significance of the United States for India, Key Issues in India-US Relations.

**SOME PREVIOUS YEARS PRELIMS QUESTIONS.**

Q1. What is “Terminal High Altitude Area Defense (THAAD)”, sometimes seen in the news? **(2018)**

- (a) An Israeli radar system
- (b) India’s indigenous anti-missile programme
- (c) An American anti-missile system
- (d) A defence collaboration between Japan and South Korea

**Answer: (c)**



**SOME PREVIOUS YEARS MAINS QUESTIONS.**

- Q1. 'What introduces friction into the ties between India and the United States is that Washington is still unable to find for India a position in its global strategy, which would satisfy India's National self-esteem and ambitions'. Explain with suitable examples. **(2019)**

## **SOME QUESTIONS FROM THIS YEAR AND PREVIOUS YEARS INTERVIEW TRANSCRIPTS.**

- **Board Sheel Vardhan Singh sir:**
  - You are interested in Geopolitics.
  - I am a magician.
  - I turn you into President Zelenskyy and those sitting beside you are Mr. Trump and Mr. Putin.
  - How would you negotiate?
- **Board BB Swain sir:**
  - Why does Trump want Greenland?
  - Which resources are found there?
  - Why so much chaos in geopolitics?
- **Board Suman Sharma mam:**
  - Tell me something about global world order
  - Differentiate early World order vs present World order?
  - Tell me something about Trump's impact on the world order?
- **Board Lt general Raj shukla sir:**
  - Many millionaires are coming in the Trump administration?
  - Is it good ?
- **Board Lt general Raj shukla sir:**
  - How is Trump good for Indian interests?
  - Wouldn't such sanctions affect Indian exports?

## **SOME QUESTIONS FOR QUIZ.**

Q1. Consider the following Countries:

1. United States
2. India
3. Israel
4. Saudi Arabia
5. Jordan

How many of the above countries are part of the IMEC ?

- (a) Only two
- (b) Only three
- (c) Only four
- (d) All five

**Answer: (c)**

## **SOME QUESTIONS FOR POLL**

Q1. Do you think that under the Trump 2.0 regime India-US relations impacted adversely?

- a. YES
- b. NO
- c. Can't say.

Q2. Will Trump economic policies help in reviving the Russia-India-China Troika?

- a. YES
- b. NO
- c. Can't say.