FICCI 100
100 YEARS OF BUILDING TOMORROW

India's Free Trade Agreements

Capturing the Export Opportunity

November 2026



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I INDIA'S ACCESS TO GLOBAL CONSUMPTION IS EXPANDING SHARPLY

India has entered a new era of trade policy. Through a sequence of recent trade agreements over the last few years, India is significantly expanding its access to some of the world's largest and most sophisticated markets. India has signed/concluded trade agreements with 8 nations / regions over the last 5 years - UAE, Australia, EFTA, Mauritius, the UK, Oman, New Zealand, and the European Union.

Before the above FTAs (before 2021), India had preferential market access to 14% of global merchandise imports, 9% of global consumption and 10% of global GDP. **After these FTAs come into effect, India will have preferential market access to 52% of global merchandise imports, 34% of global consumption and 35% of global GDP.**

The next phase of India's trade engagement could extend this footprint further. Prospective agreements with USA, Canada, Mexico, Chile, Mercosur, SACU, the GCC and Israel, alongside reviews of existing agreements with ASEAN, South Korea and Japan, **could expand India's preferential market access to economies accounting for as much as 70% of global GDP.** This represents a structural shift in India's trade strategy - from securing market access predominantly within Asia to establishing deeper economic partnerships with large, complementary economies across Europe, Oceania and the Americas.

II THE UK AND EU AGREEMENTS ARE THE ONES THAT MATTER MOST

II.1 They provide significant market access to Indian exporters

The agreements with the UK and EU represent a significant expansion in the scale amongst India's recent FTAs. Together, these markets import approximately US$ 8.1 trillion (2025) in merchandise annually, (including UK, extra-EU and intra-EU trade), yet **India's share remains relatively modest at 1.6% in the UK and 2.6% in the extra-EU trade.** This gap between market size and India's existing presence illustrates the substantial headroom for export growth.

The agreements are particularly important for labour intensive industries. The **elimination of tariffs currently ranging from 4% to 12%** on several apparel, leather and footwear products can improve India's competitiveness against established suppliers. **The EU alone imported approximately US$ 282 billion in textiles and apparel in 2024 (including intra-EU trade), of which India supplied just 3.39%.** Beyond goods, the agreements create opportunities in professional services, technology, investment and mobility, while deeper regulatory cooperation can help Indian enterprises integrate into advanced manufacturing and technology value chains.

Exhibit 1. India's recent high-quality trade agreements

India has entered an era of high-quality trade deals over the last 5 years, creating a robust platform for export growth

Trade deal	Year	Status	Sectors covered	Merchandise imports[1]
India-EU FTA	2026	Concluded Jan 2026; in force expected 2027	Textiles, Leather, Gems & Jewellery, Chemicals, Pharma, Marine products	~$7,407 Bn
India-New Zealand FTA	2026	Signed Apr 2026; in force 20 Oct 2026	Textiles, Engineering goods, Pharma, Marine products, Chemicals	~$48 Bn
India-Oman CEPA	2025	In force since Jun 2026	Agri, Marine, Gems & Jewellery, Pharma	~$45 Bn
India-UK CETA	2025	In force since Jul 2026	Textiles, Gems & Jewellery, Pharma, Auto	~$949 Bn
India-EFTA TEPA	2024	In force since Oct 2025	Chemicals, Textiles, Machinery, Food	~$626 Bn
India-UAE CEPA	2022	In force since May 2022	Textiles, Gems & Jewellery, Agri & Food	~$619 Bn
India-Australia ECTA	2022	In force since Dec 2022	Textiles, Gems & Jewellery, Agri & Food	~$311 Bn
India-Mauritius CECPA	2021	In force since Apr 2021	Food, Agri, Textiles, Metals	~$7 Bn
+		Continuing long-standing FTAs with ASEAN, Japan, and South Korea		

1. Merchandise imports only (goods; services excluded), 2025; 2024 where 2025 is unavailable. EFTA: Switzerland and Norway; EU: 27 member states.
Source: World Bank WDI; WTO; Ministry of Commerce and Industry, Government of India; European Commission; Press Information Bureau

Values denote merchandise imports

II.2 India's new FTAs offer substantially greater opportunities than earlier agreements

India's earlier FTAs were concentrated largely in Asia, where several partner economies had export structures competing directly with that of India. The newer agreements increasingly

target larger and more complementary markets, combining preferential access with commitments on services, investment, digital trade, regulatory cooperation and trade facilitation.

India's earlier FTAs with ASEAN (2010), Japan (2011) and South Korea (2010) expanded bilateral trade but **delivered uneven gains for Indian exporters.** Since the signing of these agreements, India's **trade deficit has increased by 573% with ASEAN, 335% with Japan and nearly 200% with South Korea.** While differences in industrial competitiveness and import demand contributed to these trends, several structural weaknesses in the agreements also limited their benefits.

A major challenge was the asymmetry in tariff concessions. India entered these agreements with relatively high import duties, while partner economies such as Japan, South Korea and Malaysia had relatively low MFN tariffs. Average MFN tariffs in Japan and Malaysia were below 4%, compared with India's trade-weighted MFN tariff of approximately 12.6%. Consequently, foreign exporters gained substantial preferential access to the Indian market, while Indian exporters received relatively modest additional benefits. This was compounded by unequal tariff commitments, particularly under the ASEAN agreement, where countries such as Vietnam, Indonesia and Thailand offered concessions on far fewer tariff lines than India.

Earlier FTAs also aggravated inverted duty structures and constrained domestic manufacturing value addition, as India's import duties on raw materials continued to remain high, while the value-added products could enter Indian markets either duty free or at low preferential rates. For instance, Indian manufacturers continued to pay high MFN duties on imported steel and aluminium, while machinery and engineering products made from these materials could enter India duty-free under several FTAs. Similar distortions emerged in chemicals, plastics, rubber and MMF textiles, where duties on raw materials raised domestic production costs even as competing finished products benefited from preferential access. These tariff differences put manufacturing in ASEAN countries at an advantage.

Persistent non-tariff barriers, including stringent certification requirements, SPS regulations and technical standards have further constrained Indian exports, particularly in agriculture, pharmaceuticals and other sectors of comparative advantage. Moreover, earlier FTAs focused predominantly on goods, with limited commitments on services and professional mobility, where India has significant strengths. Inadequate safeguard and review mechanisms also restricted India's ability to respond effectively to import surges and emerging trade imbalances.

India's new generation of FTAs offers an opportunity to address these limitations through more balanced market access, deeper commitments in services, greater regulatory cooperation and stronger institutional mechanisms for implementation and review.

Table 1. A step change in addressable market size

Merchandise import markets covered by earlier versus newer FTAs, 2025

Period	Imports (US$ trillion)
Earlier FTAs	3.7
Newer FTAs	~10.0

II.3 Significant preferential access makes FTA utilisation the next growth imperative

India's recent FTAs create a substantial addressable market across sectors that account for more than 75% of its merchandise exports. There is **approximately US$ 1.58 trillion market opportunity** across labour-intensive sectors and ~US$ 4.4 trillion across major manufacturing sectors in eight recent agreements[1].

Table 2. Sectoral opportunity across recent FTAs

Combined partner-market imports

Sector	Market size (US$ Billion)	Pre-FTA tariffs eliminated, up to
Engineering	2,997	8.9%
Electronics	982	10.2%
Agriculture and processed goods	631	Preferential access
Chemicals	462	9.4%
Gems and jewellery	442	9.3%
Textiles and apparel	359	14%
Leather products	78	11.2%
Marine products	72	32.7%

Source: *Presentation on Leveraging FTAs for Economic Growth, Department of Commerce*
Note: *Opportunities are across 8 recent concluded/ signed free trade agreements. Tariff reductions vary by product and partner; some concessions are phased.*

However, preferential access translates into exports only when enterprises can use it effectively. For example, India's share in EU imports of cotton T-shirts is approximately 5%, despite the EU importing nearly US$15 billion of the product annually. The FTA can improve India's tariff position against suppliers accounting for a significant proportion of that market, but capturing the opportunity will depend on production scale, price competitiveness, compliance with rules of origin and the ability to meet European technical and sustainability standards.

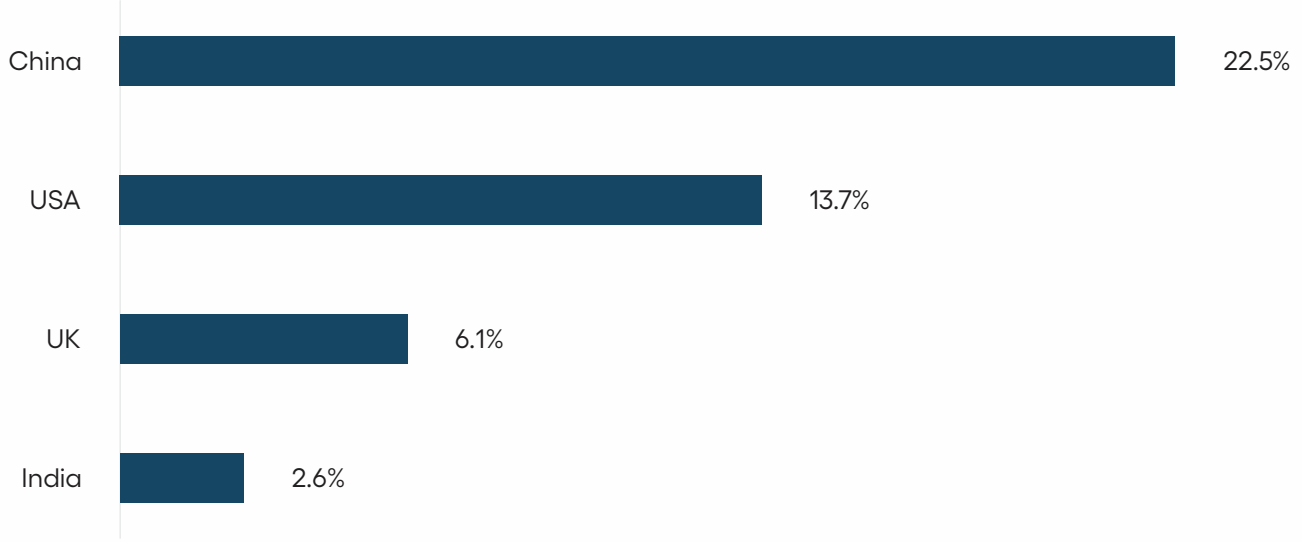
The next phase of India's FTA strategy must therefore shift from negotiation to utilisation. Product-level opportunity mapping, targeted exporter outreach, easier certification, accredited testing facilities and stronger supply-chain capabilities will be critical, particularly for MSMEs. Equally important will be mechanisms to resolve non-tariff barriers and support exporters in navigating increasingly complex regulatory requirements. The measure of success will ultimately be the extent to which India's expanded preferential access translates into higher exports, deeper global value-chain participation and sustained gains in international market share.

[1] Trade Agreements with UAE, Australia, EFTA, Mauritius, the UK, Oman, New Zealand, the European Union

III WHERE THE OPPORTUNITY CONCENTRATES: FIVE FOCUS SECTORS

The EU is an advanced, high-income economy, and the scale of the prize is large. Total extra-EU goods imports were **$3.2 trillion in 2025,** yet India supplied only **2.6%** of them, against 22.5% for China, 13.7% for the United States and 6.1% for the United Kingdom. The headroom is substantial, and it is concentrated in a small number of sectors that are simultaneously large import categories and areas where Indian supply is set to benefit.

Exhibit 2. India holds just 2.6% of the extra-EU's $3.2 trillion import market - the headroom is large



Source: *ITC Trade Map, Extra-EU imports of US$ 3.2 trillion in 2025*

Prioritising the sectors that are both prime EU/UK import categories and competitive Indian supply opportunities yields **five priority sectors:** auto components (including EV and batteries); consumer electronics (including smartphones and semiconductors); pharmaceuticals and biopharma; chemicals; and textiles.

Table 3. The five priority sectors and why they benefit under the UK and EU agreements

Focus sector	Current position	Share of extra-EU imports (Year 2025)	Why it benefits under the UK & EU agreements
Auto components (incl. EV & batteries)	~$22.9 Bn of total auto-component exports in FY25, of which ~29.5% (~$6.8 Bn) went to Europe; the sector moved to a ~$1.4 Bn trade deficit in FY26	**~4 to 5%**	Engineering goods and auto components fall within the EU's largest import category ($865 Bn); iron and steel, machinery and auto parts gain access as tariffs fall.

Focus sector	Current position	Share of extra-EU imports (Year 2025)	Why it benefits under the UK & EU agreements
Consumer electronics (incl. smartphones)	Fastest-growing mobile-phone export (+55% year-on-year); smartphone domestic component localisation still low (5-8% of memory BOM)	**~2 to 3%**	Preferential access to the EU's ~$750 Bn electronics market supports contract manufacturing, sub-assembly and component exports.
Pharmaceuticals & biopharma	3rd-largest producer by volume; exports to 200+ countries; skewed to low-margin generics today	**~2 to 3% (pharma + chemicals combined)**	EU tariffs on most pharmaceuticals are already at or near zero, so the gain is regulatory rather than tariff-led: GMP cooperation and faster registrations under the agreement shorten time-to-market and support the shift toward biologics.
Chemicals	Only ~3% of global chemicals trade; limited specialty presence	**Included in the combined pharma + chemicals line above**	EU, UK and UAE agreements open a $348 Bn EU chemicals import market; alongside pharma this lifts the combined pharma-and-chemicals opportunity toward ~$20 Bn by 2030, with $35-40 Bn of additional annual exports possible longer-term.
Textiles & apparel	8.2% of India's total exports; cost gap versus Bangladesh and Vietnam	**~5 to 6%**	EU tariffs of 10-12% are eliminated on a $282 Bn EU import market, closing the disadvantage versus Bangladesh and Vietnam.

Sources: *European Commission (Eurostat); India-EU FTA sector estimates. Pharmaceuticals and chemicals are shown as one combined opportunity (~$11 Bn → ~$20 Bn by 2030), as grouped in the source. The consumer-electronics 2030 figure is also a directional estimate. Figures are directional.*

Of these five, this report focuses in depth on the **three sectors where India's manufacturing stakes are highest and the domestic-capability gap is most consequential - auto components (including EV and batteries), consumer electronics, and pharmaceuticals and biopharma.** These three combine the largest value at risk from imported high-value components with the clearest route to closing the gap. Chemicals and textiles, also strong UK/EU opportunities, are addressed in the appendix. The remainder of the main report - the competitiveness diagnosis, the utilisation analysis, the recommendations and the enablers - is therefore developed for the three focus sectors. For consumer electronics, smartphones are used as the representative sub-sector.



IV TWO QUESTIONS: A STRONGER ECOSYSTEM, AND FULL FTA UTILISATION

Access alone does not produce exports. Capturing the opportunity depends on answering two distinct questions. The first is a **competitiveness** question - how to make the Indian ecosystem strong enough for these sectors to win on cost and capability. The second is a **utilisation** question - how to ensure exporters claim the preferences the agreements confer.

IV.1 Strengthening the ecosystem - the competitiveness challenge

Across the focus sectors, India is competitive at the finished or assembly end of the value chain but dependent on imports for the high-value rungs upstream. This produces a structural cost gap versus China concentrated in **materials, capital and utilities - not labour, where India retains an advantage**. The analysis below follows a consistent, evidence-based method for each of the three focus sectors: break the sector into its value-chain rungs and locate the cost gap rung by rung; select the most-exposed rung; decompose that rung's cost gap by cost head; and estimate how much of that gap the five levers can close. Each rung's gap is built from observed prices and a cost-head model, and is benchmarked against a published India-versus-China figure where one exists.

The competitiveness gap resolves into a defined set of cross-cutting challenges (Table 4), which are then examined sector by sector.

Table 4. Cross-cutting competitiveness challenges and the sectors they most affect

Challenge	What it means	Sectors most affected
Low domestic value-add upstream	India imports the high-value rungs where the margin sits, so localisation is thin.	All three; most acute in smartphones and the auto EV chain, then biopharma
Structural cost gap vs China	On the exposed rungs India is ~10-27% costlier than China, in materials, capital and utilities rather than wages.	Auto/EV, smartphones, biopharma
Missing shared / precision infrastructure	Localisation stalls without power, water, effluent treatment, cleanrooms and testing built ahead of demand.	Smartphones, biopharma; the auto EV chain
Scarcity of patient, long-tenor capital	Capex-heavy plants with 8-12-year paybacks are underserved by 3-5-year bank lending.	Smartphones, biopharma, the auto EV cell chain
Weak demand assurance	Suppliers localise only against assured volume, which India has not organised.	Auto/EV, smartphones, biopharma
R&D-to-product & technology-transfer gap	A strong research base rarely becomes product; process know-how sits with a few global firms.	Smartphones, biopharma, auto EV
Specialised talent shortage	The high-value rungs need tacit process skills that take years to build.	Smartphones, biopharma
Critical raw-material dependence	Imported minerals and inputs - mostly from China - leave a hidden import floor.	Auto/EV, smartphones

Each cross-cutting challenge is detailed below.

Low domestic value-add upstream. In every focus sector India earns its margin at the finished end while importing the high-value components - EV cells, the semiconductor and display stacks in smartphones, and the key starting materials and fermentation intermediates in biopharma. Because the value has migrated upstream, thin localisation there caps the value India can capture even as assembly volumes rise.

Structural cost gap versus China. On the exposed rungs India's cost runs ~10–27% above China's. The gap is not in wages - India is cheaper - but in imported and sub-scale materials, a higher cost of capital and expensive utilities. It therefore cannot be closed by cost arbitrage; it must be closed by localising the input base, reaching scale and lowering the cost of infrastructure.

Missing shared / precision infrastructure. Localisation of high-value rungs requires infrastructure that no single firm can justify alone: competitively-priced power, process water, shared effluent treatment, cleanrooms, specialty-gas networks and testing. Where this is absent, plants are sub-scale and costly; where it is shared across a cluster, unit costs fall sharply.

Scarcity of patient, long-tenor capital. Cells, fabs and fermentation plants carry 8–12-year paybacks, but commercial banks lend at 3–5 years and development finance is thinly allocated to technology manufacturing. Without long-tenor, lower-cost capital the annual capital charge keeps Indian output uncompetitive.

Weak demand assurance. Suppliers invest in localisation only against assured volume. India has not organised the anchor sourcing roadmaps, offtake guarantees and procurement commitments that underwrote localisation in China and Vietnam, so first-movers face demand risk.

R&D-to-product and technology-transfer gap. India has a strong research base but weak translation into licensable product, and the critical process know-how and equipment sit with a handful of global firms. Public support that buys assembly rather than transferred technology leaves the capability gap intact.

Specialised talent shortage. The highest-value rungs depend on tacit process skills - in semiconductor and display process engineering and in fermentation - that take years to accumulate and are scarce in India today.

Critical raw-material dependence. Even after component localisation, imported minerals and inputs - lithium, graphite, rare earths, cobalt and the Chinese base of key starting materials - leave a hidden import floor that keeps value-add fragile and must be secured through domestic refining and diversified sourcing.

The cross-cutting challenges above translate into a measurable production cost gap versus China. To size it, we take one representative product in each focus sector - an EV battery cell, a smartphone display module and a fermentation-based key starting material - and compare an Indian manufacturer with its Chinese counterpart on a like-for-like basis, covering the

context, the approach taken, the production cost gap at scale, the sources used and the key assumptions. Because the remedy is common to all three, the five levers that narrow the gap are set out together in IV.1.4.

IV.1.1 Production cost gap in the auto components sector (EV batteries)

IV.1.1.1 Context

India localises well over 90% of an internal-combustion vehicle and is genuinely competitive there. Its position weakens sharply, however, on the sub-systems an electric vehicle adds, where value is migrating and China is dominant.

The battery is the single largest component of an electric vehicle, at ~30–40% of vehicle cost (ICCT), and the rung where India's domestic value-add is weakest relative to China. Within the battery, pack assembly is already largely domestic, with ~45–55% of value added in India (WRI India). Cell manufacturing, by contrast, is nascent: domestic value-add is only ~1–3%, commissioned cell capacity is ~1–3 GWh against a demand pipeline of ~250–270 GWh (Wood Mackenzie), and ~90–95% of India's lithium-ion imports in H1-2025 came from China.

The cell is therefore the value-chain rung evaluated here.

IV.1.1.2 Approach taken

To ensure a like-for-like comparison, the analysis takes an identical product on both sides of the border: an LFP prismatic EV cell made by an Indian cell manufacturer, against the same cell made by its Chinese counterpart based in the Changzhou cluster (Jiangsu). As an illustration, the Indian organisation licenses its cell technology from the Chinese counterpart, so chemistry, format, specification and process are identical by construction. The Changzhou cluster also hosts several other organisations making the other elements of the cell value chain, including cathode, anode, separator and electrolyte. Any cost difference therefore stems from where inputs come from, scale and the cost of capital, not from technology (Table 5).

Table 5. Like-for-like comparison basis - Indian vs Chinese manufacturer, LFP prismatic EV cell

Parameter	India - Indian cell manufacturer	China - counterpart based in the Changzhou cluster	Implication
Product	LFP prismatic EV cell	LFP prismatic EV cell	Identical product, chemistry and format
Technology / IP	Manufactured under licence from the Chinese counterpart, which also supported set-up of the end-to-end process	Licensor (own IP and process)	Specification and process identical by construction
Materials sourcing	Cathode, anode, separator, electrolyte, copper foil and most process equipment imported	Sourced within the Changzhou cluster; some cathode made in-house	Drives the materials and logistics gap
Cost of capital	One-year bank lending rate (MCLR) of ~8.7-9.0%; RBI repo at 5.25%	One-year loan prime rate of 3.0%	Drives the capital-cost gap

Sources: *company stock-exchange disclosure (Sep 2026); industry press (Autocar Professional; electrive); RBI Monetary Policy Committee (Aug 2026); People's Bank of China (Aug 2026).*

China's advantage is not one of technology - the Indian organisation runs its Chinese counterpart's own process - but of ecosystem. Changzhou brands itself China's 'new energy capital', and the Chinese manufacturer benefits from support from both industry and the state (Table 6).

Table 6. Ecosystem advantages of the Chinese manufacturer - EV cell, Changzhou cluster

Ecosystem advantage	What it means for the Chinese manufacturer
Integrated cluster strategy	Cathode, anode, separator and electrolyte suppliers are located within the same city, so a cell maker sources multiple materials inside the cluster with minimal logistics cost and working capital - for example, a ~230-250 kt LFP cathode project signed with the local district in January 2026 (EnergyTrend). Materials are ~75-85% of cell cost.
State co-investment	City and district investment vehicles take equity in the cluster's battery makers (Cathay Capital; Gasgoo).
Direct subsidies	A leading cell maker in the cluster received government subsidies of ~2.5-3.5 times its net income in a single year (KrASIA, citing company filings).
Low-cost capital	China's one-year loan prime rate of 3.0%, against India's one-year MCLR of ~8.7-9.0%, lowers the financing charge on capital-intensive lines.
Scale and learning	Incumbents have been in volume production since 2019 across multiple sites, lowering fixed cost per kWh, scrap and yield losses.

Export support has not been counted as an ecosystem advantage: China's VAT export rebate on batteries has come down from 9% to 6%, and is being withdrawn entirely from 1 January 2027. It has therefore not been considered.

IV.1.1.3 Production cost gap at scale

- The production cost gap is derived by working backwards from observed prices
- The market price of LFP EV cells in China (TrendForce) and the Indian organisation's LFP-equivalent cell price are taken as ex-works prices; freight, duty and the manufacturer's margin are then removed to arrive at each cell's production cost
- Because the Indian plant was recently commissioned and is still ramping up, the comparison is made at scale, applying the bottom-up cost-head gap from the companion model to the Chinese production cost

Table 7. Illustrative production cost gap between an Indian cell manufacturer vs a Chinese manufacturer

Lever	UoM	India (at scale)	China	Gap vs China (at scale)
Production cost	**₹/kWh**	**~5,900-6,000**	**~4,700-4,750**	**~25-27%**
add: Manufacturer margin	₹/kWh	~575-625	~225-250	-
Ex-works price	₹/kWh	~6,500-6,600	~4,950-5,000	~31-33%
add: Duty (incl. Social Welfare Surcharge)	₹/kWh	-	~275-300	-
add: Freight and insurance	₹/kWh	~60-70	~240-260	-
Landed price to the Indian OEM	**₹/kWh**	**~6,550-6,650**	**~5,450-5,500**	**~19-21%**

Indicative, excluding GST. 'At scale' assumes the Indian plant ramped up to ~70-80% utilisation, around FY28-FY30.

At scale, an LFP cell made in India costs ~25–27% more to produce than the same cell made in China - consistent with Wood Mackenzie's independent finding of a ~25–40% premium for locally made cells.

The comparison above reflects a cell built from imported Chinese components, which enter India duty-free. Industry estimates compiled by NETRA (October 2026) indicate that manufacturing these components in India, at current or planned capacities, would cost 18–61% more than landed Chinese supply. The competitiveness of a fully localised cell will therefore depend on closing this component-level gap, the focus of the proposed ACC component PLI.

For battery pack assembly, the cost difference versus China is likely to be lower, given India's strength in assembly - where ~45–55% of value is already added domestically - and its low labour cost.

IV.1.1.4 Sources

- **Chinese data.** TrendForce LFP EV cell price (Sep 2026); BloombergNEF (2025); EnergyTrend (Jan 2026); Gasgoo; KrASIA; Cathay Capital (2021); electrive; People's Bank of China (Aug 2026); Ministry of Finance / State Taxation Administration, PRC (Notice No. 2 of 2026), NETRA report (Oct'26)
- **Indian data.** Publicly available information through company disclosures (2025–26); Wood Mackenzie (Aug 2026); WRI India; ICCT; CBIC Notification 45/2025-Customs; RBI Monetary Policy Committee (Aug 2026), NETRA report (Oct'26)

IV.1.1.5 Key assumptions

- **Manufacturer margins.** ~4–6% for the Chinese manufacturer, reflecting thin margins amid China's LFP price war; ~9–11% for the Indian manufacturer, a normal mature-supplier margin
- **Duty.** An effective customs duty of ~5–6% on imported cells - the concessional basic customs duty on cells for EV pack manufacture, plus the Social Welfare Surcharge
- **Freight.** International freight and insurance of ~3–5% of the ex-works price on Chinese cells, and domestic freight of ~0.5–1.5% on both
- **Scale.** Indian plant at ~70–80% utilisation by around FY28–FY30, in line with management's stated ramp-up path

IV.1.2 Production cost gap in the smartphones sector (display modules)

IV.1.2.1 Context

India's smartphone success has been built on assembly. Final assembly and testing of mobile phones is now ~93–97% domestic (Counterpoint), but domestic value-add across the handset is only ~15–20%, because the high-value components are still imported.

Semiconductors carry the largest share of value but require fabs and are a longer-horizon goal. The display module is the largest single non-semiconductor component, at ~14–16% of a smartphone's bill of materials (TD Cowen; TechInsights), and the rung where India's domestic value-add is weakest relative to its value, at ~4–6%.

India has no display-panel fab and ran a display-panel trade deficit of ~US$4–4.5 bn in 2024 (NITI Aayog), and the module is a named target of the Electronics Components Manufacturing Scheme (ECMS).

The display module is therefore the value-chain rung evaluated here.

IV.1.2.2 Approach taken

To ensure a like-for-like comparison, the analysis takes an identical product on both sides of the border: a 6.56-inch HD+ TFT-LCD in-cell display module (LCD with integrated touch), of the kind fitted to budget smartphones - India's volume segment. On the Indian side is an ECMS-approved Indian module maker that draws on a technology partnership with a Chinese LCD panel maker. On the Chinese side is its counterpart, an established merchant module maker based in the Shenzhen cluster in the Pearl River Delta, where other organisations make the other elements of the module value chain - panels, driver ICs, polarisers and cover glass. Both turn an LCD panel into the same finished module, so any cost difference stems from where inputs come from, scale, maturity and the cost of capital, not from the product (Table 8).

Table 8. Like-for-like comparison basis - Indian vs Chinese manufacturer, 6.56" HD+ TFT-LCD smartphone display module

Parameter	India - ECMS-approved Indian module maker	China - counterpart based in the Shenzhen cluster	Implication
Product	6.56" HD+ TFT-LCD in-cell module (LCD + touch), budget smartphones	Same part	Identical product and specification
Technology / IP	Technology partnership with a Chinese LCD panel maker	Own process; mature module lines	Process comparable; know-how partly licensed in India
Panel and materials sourcing	Panel cell, driver IC, flex circuit, polariser and cover glass imported - largely from China	Panel and most materials sourced within China's domestic supply chain	Drives the materials and logistics gap
Cost of capital	One-year bank lending rate (MCLR) of ~8.7-9.0%; RBI repo at 5.25%	One-year loan prime rate of 3.0%	Drives the capital-cost gap

Sources: *company stock-exchange disclosure (Mar 2026); PIB (Mar 2026); DIGITIMES (Apr 2026); RBI Monetary Policy Committee (Aug 2026); People's Bank of China (Aug 2026).*

China's advantage is not in the module assembly step itself - which is labour-light, and where India's wages are lower - but in the ecosystem behind it, built with sustained support from both the state and industry (Table 9).

Table 9. Ecosystem advantages of the Chinese manufacturer - display module, Shenzhen cluster

Ecosystem advantage	What it means for the Chinese manufacturer
Integrated cluster strategy	Panel, driver IC, polariser and glass suppliers sit within the same cluster - panel supply at the doorstep - so a Shenzhen module maker sources multiple materials locally, in volume, with no freight, duty or extra working capital. Mainland China produces ~70-75% of the world's LCD panels (ITIF, 2024), and the panel alone is ~60-70% of module cost.
State co-investment	City and provincial investment funds take equity in panel fabs (the 'Hefei model'); one municipal fund held ~60-65% of a Gen 10.5 panel line (Yicai).

Ecosystem advantage	What it means for the Chinese manufacturer
Direct subsidies	A leading Chinese panel maker received ~US$3.5-4 bn of national and provincial subsidies over 2010-21 (ITIF).
In-kind support	Tax breaks, discounted land, utilities and capital, and state-funded hiring of foreign talent (ITIF, 2024).
Low-cost capital	China's one-year loan prime rate of 3.0%, against India's one-year MCLR of ~8.7-9.0%, lowers the financing charge on module lines.
Scale and learning	Two decades of volume production, with China's share of global display capacity expected to rise from ~65-70% in 2023 to ~75-80% by 2028 (DSCC).

IV.1.2.3 Production cost gap at scale

- The production cost gap is derived by working backwards from observed prices
- For China, the module maker's ex-works price (a Shenzhen supplier listing, converted to rupees) less its margin gives the production cost
- The Indian organisation's cost is built bottom-up: China's production cost plus India's gap on each of eight cost heads - panel, driver IC, glass, other materials, capital, labour, energy and yield
- Freight, duty and import charges are then added to compare landed prices at an Indian phone assembler
- As the Indian line is in its first year of ramp-up, the comparison is made at scale

Table 10. Illustrative production cost gap between an Indian display-module manufacturer vs a Chinese manufacturer

Lever	UoM	India (at scale)	China	Gap vs China (at scale)
Production cost	**₹/module**	**~690-710**	**~620-635**	**~10-12%**
add: Manufacturer margin	₹/module	~75-80	~30-35	-
Ex-works price	₹/module	~770-780	~655-665	~16–18%
add: Customs duty (incl. Social Welfare Surcharge)	₹/module	-	~75-80	-
add: Freight, insurance and import charges	₹/module	~3-5	~60-65	-
Landed price to the Indian phone assembler	**₹/module**	**~775-785**	**~795-805**	**~2-4% lower**

Indicative, excluding GST. 'At scale' assumes line utilisation of ~80-90% and yield of ~97-99%, around FY28-FY30.

At scale, a display module made in India costs ~10–12% more to produce than its Chinese twin.

Export view. For exports to the EU and UK, Indian customs duty and freight on Chinese modules no longer cushion the Indian producer, so the relevant comparison is the ~16–18% ex-works gap.

IV.1.2.4 Sources

- **Chinese data.** Shenzhen supplier listing (Made-in-China.com); ITIF, 'How Innovative Is China in the Display Industry?' (Sep 2024); Yicai Global (Dec 2022); DSCC via Display Daily (2024); People's Bank of China (Aug 2026)
- **Indian data.** Publicly available information through company disclosures and PIB (Mar 2026); ICEA; Counterpoint; NITI Aayog; TD Cowen and TechInsights teardowns; FBIL reference rate (Oct 2026); CBIC Notification 57/2017-Customs (as amended); RBI Monetary Policy Committee (Aug 2026)

IV.1.2.5 Key assumptions

- **Manufacturer margins.** ~4–6% for the Chinese manufacturer, reflecting thin margins on commodity LCD modules; ~9–11% for the Indian manufacturer, consistent with the other two sectors
- **Chinese price.** Midpoint of a ~US$6–8 per module B2B listing range, rather than a negotiated OEM contract price
- **Duty.** An effective customs duty of ~10–12% on imported modules - the concessional basic customs duty on mobile-phone display assemblies, plus the Social Welfare Surcharge
- **Freight and import charges.** Air freight, insurance, broker, bank and inventory-carrying costs of ~8–10% of the ex-works price on imported modules
- **Scale.** Utilisation of ~80–90% and yield of ~97–99% at scale

IV.1.3 Production cost gap in the pharmaceuticals and biopharma sector (fermentation KSMs)

IV.1.3.1 Context

India's pharmaceutical sector is the opposite of the other two. It is highly competitive where most of the value sits - formulations, where India supplies ~18–22% of global generics, and vaccines, where it accounts for ~55–65% of global output.

Its exposure is concentrated upstream, in the key starting materials (KSMs) and drug intermediates on which even its API strength rests: China supplied ~70–75% of India's ~US$4–4.5 bn of bulk-drug and intermediate imports in FY25, and ~85–100% for key antibiotic intermediates such as penicillin-G and clavulanate.

Fermentation-based KSMs are therefore the value-chain rung evaluated here: it is where domestic value-add is weakest relative to China, and it is the explicit target of the Government's bulk-drug Production Linked Incentive (PLI) scheme and its bulk-drug parks.

IV.1.3.2 Approach taken

To ensure a like-for-like comparison, the analysis takes an identical product on both sides of the border: potassium clavulanate (KGA) - the β-lactamase inhibitor paired with amoxicillin, and the KSM where Indian commercial fermentation is most advanced. On the Indian side is a PLI-supported Indian KGA fermentation producer. On the Chinese side is its counterpart based in the Shandong cluster (Feixian County), part of an integrated pharmaceutical group,

in a province whose chemical and pharmaceutical parks also host other organisations producing the solvents, intermediates and APIs further along the value chain. Both make the same pharmacopoeial-grade molecule by the same fermentation route, so any cost difference stems from inputs, utilities, scale and the cost of capital, not from the product (Table 11).

Table 11. Like-for-like comparison basis - Indian vs Chinese manufacturer, potassium clavulanate (KGA)

Parameter	India - PLI-supported Indian KGA producer	China - counterpart based in the Shandong cluster	Implication
Product	Potassium clavulanate (KGA), pharmacopoeial grade	Potassium clavulanate (KGA), USP / EP grade	Identical molecule and specification
Technology / process	Fermentation and extraction; fermenters, extraction and filtration systems imported from Europe	Fermentation and extraction; in-house process, in production for over a decade	Same route; process maturity differs
Materials sourcing	Solvents and many process chemicals imported, largely from China	Sourced within Shandong's chemical parks and the corporate group	Drives the raw-material and logistics gap
Cost of capital	One-year bank lending rate (MCLR) of ~8.7-9.0%; RBI repo at 5.25%	One-year loan prime rate of 3.0%	Drives the capital-cost gap

Sources: *company disclosures and project pages; The Tribune (Mar 2024); Chinese producer profile and product listings (secondary); RBI Monetary Policy Committee (Aug 2026); People's Bank of China (Aug 2026).*

China's advantage is not one of product or process - both organisations make the same molecule by the same fermentation route - but of ecosystem. The Chinese manufacturer benefits from support from both industry and the state (Table 12).

Table 12. Ecosystem advantages of the Chinese manufacturer - KGA, Shandong cluster

Ecosystem advantage	What it means for the Chinese manufacturer
Integrated cluster strategy	Solvents, chemicals and intermediates are produced within the province and the corporate group, with subsidiaries co-located, so the producer sources multiple inputs inside the cluster. Indian makers, by contrast, face ~25-30% higher raw-material costs from importing inputs (DrugPatentWatch, 2026).
Subsidised shared utilities and effluent treatment	Government-owned common utilities and effluent-treatment plants in chemical and pharmaceutical parks supply power at ~35-40% below Indian rates and effluent treatment at a small fraction of Indian cost (ISID 2020).
Cheaper fermentation feedstock	Chinese producers use lower-cost substrates, while Indian producers rely on costlier glucose and lactose (Praxis Global Alliance).
Low-cost capital	China's one-year loan prime rate of 3.0%, against India's one-year MCLR of ~8.7-9.0%, lowers the financing charge on fermentation plants.
Fiscal incentives	Recognised high-tech enterprises pay corporate income tax ~10 percentage points below the standard rate (PRC Enterprise Income Tax Law).
Scale and learning	Chinese antibiotic fermenters are often ~5-10x larger than Indian ones, lowering depreciation per kg and lifting yield (DrugPatentWatch, 2026).

IV.1.3.3 Production cost gap at scale

- The production cost gap is derived by working backwards from observed prices
- The Chinese FOB export price after the 2025 price cut, and the Indian selling price (proxied by the minimum import price), are taken as ex-works prices
- Duty, freight, port charges and the manufacturer's margin are then removed to arrive at each producer's production cost
- The at-scale case then applies the effect of full utilisation and bulk input pricing.

Table 13. Illustrative production cost gap between an Indian KGA manufacturer vs a Chinese manufacturer

Lever	UoM	India (at scale)	China	Gap vs China (at scale)
Production cost	**US$/kg**	**~155-165**	**~125-130**	**~22-25%**
add: Manufacturer margin	US$/kg	~15-17	~6-7	-
Ex-works price	US$/kg	~170-180	~130-140	~28-31%
add: Duty (incl. Social Welfare Surcharge)	US$/kg	-	~11-12	-
add: Freight, insurance and port charges	US$/kg	-	~6-7	-
Landed price to the Indian buyer	**US$/kg**	**~170-180**	**~150-155**	**~14-16%**

Indicative, open market (no minimum import price). 'At scale' assumes full utilisation and bulk input pricing.

At scale, India's cost of producing KGA is ~22–25% above China's. On the open market, an Indian buyer would still pay ~14–16% more for domestic KGA than for landed Chinese supply, and in export markets, where Indian KGA competes without the cushion of Indian duty and freight, the full ex-works gap of ~28–31% applies.

Import cost floor. The Government has responded to Chinese price pressure with minimum import prices on KGA (December 2025), followed by floors on penicillin-G, 6-APA and amoxicillin (January 2026), after Chinese producers cut KGA prices sharply once Indian commercial supply began. Under the floor, Indian KGA is cheaper than landed Chinese supply. This import cost floor, however, is about to go away: the floors are time-bound, lapsing on 30 November 2026 for KGA. The floor also protects the selling price, not the cost of production - the production cost gap is unchanged, and export-oriented units remain free to buy at Chinese prices. The objective, therefore, is not trade restriction but production competitiveness: closing the gap in power and steam, effluent treatment, cost of capital and imported inputs, which no price floor corrects.

IV.1.3.4 Sources

- **Chinese data.** Business Standard (Dec 2025) for the Chinese FOB price; Chinese producer profile and product listings (CPhI Online; PharmaCompass); DrugPatentWatch (2026); Praxis Global Alliance via Pharma Industrial India (2025); PRC Enterprise Income Tax Law; PwC Worldwide Tax Summaries (2026); People's Bank of China (Aug 2026)
- **Indian data.** DGFT Notification 50/2025-26 (minimum import price); customs tariff, HS 2941; company disclosures and project pages; The Tribune (Mar 2024); Department of Pharmaceuticals / PIB (Mar 2026); Shefali et al., International Journal of Drug Regulatory Affairs (2021); RBI Monetary Policy Committee (Aug 2026)

IV.1.3.5 Key assumptions

- **Manufacturer margins.** ~4–6% for the Chinese manufacturer, reflecting the ongoing price war in which Chinese clavulanate has been priced close to or below cost; ~9–11% for the Indian manufacturer, a normal mature-supplier margin. Across plausible margins, today's gap ranges ~15–40%
- **Indian price.** Proxied by the minimum import price, and treated as a delivered price
- **Duty.** An effective customs duty of ~8–9% - basic customs duty on HS 2941 plus the Social Welfare Surcharge
- **Freight.** International freight and insurance of ~2–4% of the FOB price, and port, clearing and inland charges of ~1–2% of the CIF value, on Chinese supply
- **Scale.** Full utilisation and bulk input pricing, worth ~2.5–3.5 percentage points of today's gap
- **Export rebate.** The Chinese price is an FOB export price, so any VAT export rebate is already reflected in it and is not added separately

IV.1.4 Closing the gap: the five levers

Across all three sectors, the production cost gap versus China has the same roots - imported materials, a higher cost of capital, missing shared infrastructure, sub-scale demand and thin process know-how - and not wages, where India retains an advantage. The remedy is therefore common to all three.

Applied together, five levers are expected to bring the production cost gap versus China down to ~40–45% of its at-scale level.

- **Patient state capital.** Long-tenor, low-cost debt and viability funding for capital-intensive plants cut the financing charge on capital and fund domestic material plants
- **Demand assurance.** Firm offtake - OEM sourcing commitments, procurement preference for domestic content and PLI-linked volumes - lifts utilisation and secures bulk pricing on materials
- **Shared cluster infrastructure.** Parks and clusters with reliable power, common utilities, effluent treatment and testing, and co-located suppliers - India's answer to China's integrated cluster strategy
- **Indigenous R&D and technology transfer.** Own process know-how cuts licence dependence, scrap and input use
- **Talent import and development.** Experienced process engineers shorten the yield ramp, while protecting India's labour-cost advantage

Taking the EV cell as an example, the five levers would bring the production cost gap down from ~25–27% to ~10–12%

- Patient state capital[2] and demand assurance do most of the work, together accounting for majority of the reduction: the first cuts the financing charge on capital and funds domestic material plants, and the second lifts utilisation toward full scale and secures bulk pricing on materials

[2] Proposed PLI on ACC components will also help in reducing the risk for investors planning to invest in the component eco-system

- Indigenous R&D and technology transfer, shared cluster infrastructure and talent development account for the rest
- Capital and demand - not power or wages - are the binding constraints, and both sit within the reach of policy

IV.2 Utilising the agreements - the non-tariff challenge

Even where India is competitive, the benefit is captured only if exporters can clear the destination market's requirements and claim preference. Across the focus sectors, **non-tariff barriers are now the binding constraint.** Table 14 sets out the principal barriers by sector; each is detailed below.

Table 14. Non-tariff roadblocks to UK/EU market access, by sector

Sector	Barrier type	Specific barrier	Illustrative impact
Auto & auto components	**Technical standards & CBAM**	India has not joined the UNECE 1958 type-approval pact (60+ countries), forcing duplicate testing; a proposed CBAM extension could cover downstream metal parts from 2028.	*EU type-approval adds 6-12 months per model*
Smartphones	**Conformity assessment**	CE-marking and REACH registration raise cost and time-to-market; divergent technical regulations.	*253 REACH SVHC substances to track*
Pharmaceuticals & biopharma	**Quality & standards**	EU-GMP re-certification is required even where India already holds USFDA or WHO approval.	*600+ USFDA-certified plants need EU-GMP re-audit*

Source: *European Commission (RAPEX, RASFF, REACH); Asian Development Bank. Marine and agricultural exporters face parallel sanitary and phytosanitary barriers.*

Each barrier is detailed below.

Auto - technical standards and CBAM. India's non-membership of the UNECE 1958 Agreement means an ARAI-certified part must undergo a second EU type approval, adding six to twelve months per model. Separately, the EU has proposed extending its carbon border levy to downstream steel and aluminium products, including parts used in transport, from 2028 (still under negotiation), which could add a carbon cost that erodes the FTA tariff gain. CBAM charges have applied to Indian steel and aluminium since January 2026, and the India–EU FTA includes a dedicated CBAM annex.

Smartphones - conformity assessment. CE-marking and REACH registration, together with divergent technical regulations, raise the cost and lengthen the time-to-market of exporting to the EU; the obligation to track and disclose 253 REACH substances of very high concern is a particular burden on smaller firms.

Pharmaceuticals - quality and standards. EU good-manufacturing-practice re-certification is required even where a plant already holds USFDA or WHO approval, so more than 600 USFDA-certified Indian plants would need EU-GMP re-audit - a duplication that adds cost and delays market entry.

The cross-cutting constraint. Beyond the sector-specific barriers, complex rules-of-origin documentation, low exporter awareness (concentrated among MSMEs) and the absence of mutual-recognition agreements keep India's overall FTA-utilisation rate **below 25%** - against 70–80% in Japan and the EU, and 40–50% in peers such as Vietnam and South Korea (ADB). Utilisation is where the largest near-term gains lie.



V RECOMMENDATIONS

The response falls naturally into two hands. Government must build the ecosystem and the trade-facilitation machinery that no single firm can provide; industry must invest in competitiveness, compliance and market development. The recommendations below are organised accordingly, sector by sector, with the cross-cutting measures detailed beneath each table.

V.1 Recommendations for the Government

Table 15. Government-led recommendations, by focus sector

Focus sector	Government-led actions
Auto components	Develop anchor-led MSME clusters and scale the Maruti ITI skill-hub model; digitise rules-of-origin and certificate-of-origin issuance; and provide compliance support for Tier-2 and Tier-3 exporters; and broker lithium and other critical-mineral off-take arrangements for the EV cell chain.
Smartphones	Seed 40-50 MSME feeder suppliers around anchors; stand up dedicated EU/UK compliance teams; fund talent institutes; and provide 24×7 power, ultra-pure water .
Pharmaceuticals & biopharma	Negotiate mutual-recognition agreements and faster drug registrations across FTA markets; resolve non-tariff barriers; and grow the clinical-trial ecosystem, which today hosts only ~2-3% of global trials.

The cross-cutting government measures that unlock all three sectors are detailed below.

Standards and mutual recognition. Assess accession to the UNECE 1958 Agreement for autos, weighing the reciprocal opening of India's market to UNECE-approved vehicles and parts; seek EU and UK acceptance of GMP inspection reports from comparable regulators, following the India–New Zealand FTA precedent; and establish CE/UKCA conformity support. This is the single highest-value set of moves for utilisation, since it removes the duplicate testing and re-certification that block market access even where India is competitive.

Shared infrastructure and patient capital. Complete the electronics clusters, bulk-drug parks, PCPIRs and PM MITRA parks with competitively-priced power, water, effluent treatment and testing; and open dedicated development-finance windows offering 10–20-year debt and first-loss equity for capex-heavy stacks. These directly close the utilities and capital cost heads identified in Section IV.1.

Conditional incentives and demand assurance. Tie PLI drawdown to technology transfer and rising local content, and use public procurement and anchor sourcing to guarantee demand - so that public capital buys durable capability rather than assembly, and suppliers invest against assured volume.

CBAM readiness. Provide green finance and shared carbon measurement, reporting and verification for metal-intensive clusters ahead of the proposed 2028 downstream extension of the EU carbon levy, and use the FTA's CBAM annex to seek recognition of Indian emissions data, so that the tariff gain on auto parts is not eroded by a carbon charge.

Ownership and tracking.

- Standards and mutual recognition –
  - Department of Commerce with MoRTH/ARAI, CDSCO and BIS
  - KPI: number of conformity and GMP recognitions secured
- Shared infrastructure and patient capital –
  - DPIIT, MeitY, Department of Pharmaceuticals and NaBFID
  - KPI: utility cost per unit in parks and long-tenor debt sanctioned
- Conditional incentives and demand assurance –
  - Ministries administering PLI and ECMS
  - KPI: domestic value-add in incentivised output
- CBAM readiness –
  - Ministry of Steel and Bureau of Energy Efficiency
  - KPI: share of EU-bound metal exports with verified emissions data

V.2 Recommendations for the Industry

Table 16. Industry-led recommendations, by focus sector

Focus sector	Industry-led actions
Auto components	Adopt Industry 4.0 quality systems and set up centres of excellence and design-to-value labs; build an EU/UK sales presence; and pursue platform partnerships in EV technology and ADAS.
Smartphones	Form coalitions with technology holders to manufacture in India; secure anchor off-take pledges; and build a "localised components platform" targeting ~30% of the bill of materials (displays, cameras).
Pharmaceuticals & biopharma	Expand EU/UK presence in generics and specialty products; build a diversified biosimilars and biologics pipeline; scale biologics capacity; and expand clinical trials and AI-accelerated R&D.

The actions common to all sectors are detailed below.

Build compliance as a capability. Invest early in REACH, CE/UKCA, EU-GMP and traceability so that non-tariff barriers become a source of advantage rather than a blocker; firms that clear these requirements ahead of peers capture share as tariffs fall.

Develop market-facing presence in the EU and UK. Move beyond domestic sales desks to local sales, technical-service and buyer-relationship teams, and - in pharma especially - to solution-led selling supported by application labs close to the customer.

Anchor MSME supplier networks. Onboard and certify Tier-2 and Tier-3 suppliers and share digital quality and compliance platforms, so that export growth builds breadth across the MSME base rather than scale at a few anchors alone.



VI CROSS-CUTTING ENABLERS

Four enablers cut across the three sectors and determine whether the sector-level actions translate into realised exports. The first is the most important in the near term.

VI.1 Raising MSME awareness and FTA utilisation

The core problem. India's FTA-utilisation rate is **below 25%**, against 70–80% in Japan and the EU. One of the largest reasons is not cost but **non-awareness** - most exporters, and especially MSMEs, are unaware of the preferential rates available to them or of how to claim them, and default to standard (MFN) duties. Awareness, compliance capacity and capability are the binding constraints.

Because the duty benefit under the UK and EU agreements is significant, the cost of non-awareness has risen sharply. The following measures would raise utilisation:

- **FTA Help Desks at the Centre and in the States** (through DGFT regional offices), providing real-time query resolution for exporters.
- **District-wise tracking of FTA utilisation**, so that gaps are visible and outreach can be targeted where use is lowest.
- **Continued FTA awareness outreach** through workshops, webinars, building on the FTA-utilisation workshops already conducted and the India–UK CETA guidebook released for exporters.

VI.2 Digital tools and last-mile access

Self-serve digital tools reduce compliance friction at the border and make preferences easy to claim:

- **An FTA benefit calculator** converting an HS code and destination into an instant duty-saving estimate.
- **An AI-based tariff advisory** that flags missed FTA opportunities on live shipments.
- **A single-window FTA portal** covering tariffs, guidance, help-desk access and dispute resolution.

VI.3 MSME export finance

A 90–120-day receivables gap against 60–90-day payables constrains MSME scale-up. Finance should be broadened through:

- **Trade-credit insurance at scale**, mainstreaming ECGC cover, which today reaches under 8% of eligible MSME exporters.
- **NBFC-led invoice discounting** via rated asset-backed securities, and green / CBAM-readiness credit lines through NaBFID and the RBI priority-sector framework.

VI.4 Securing critical inputs and future-proofing agreements

Two further enablers protect the gains. First, India should de-risk its dependence on critical imported inputs - both to feed downstream industry and to sustain exports - through a four part playbook: build domestically through incentives and PLI; substitute or recycle; secure supplies abroad through long-term or government-to-government arrangements ; and diversify sources. Second, future agreements should carry periodic review, permanent and auto-trigger safeguard measures, and a review of earlier agreements to widen coverage of India's largest export categories.



VII CONCLUSION

India's preferential access to world's merchandise imports is set to roughly become 3.5x to >50%. The agreements with the UK and EU represent a significant expansion in the scale amongst India's recent FTAs. Together, these markets import approximately US$ 8.1 trillion (2025) in merchandise annually, yet India's share remains relatively modest at 1.6% in the UK and 2.6% in the extra-EU trade.

The EU and UK opportunity concentrates in three focus sectors - auto components (including EV and batteries), smartphones, and pharmaceuticals and biopharma - where India is both a competitive supplier and a natural fit for large EU and UK import demand, with chemicals and textiles as further opportunities addressed in the appendix.

Converting access into exports requires two things at once: a **stronger ecosystem**, to close the rung-level cost gap versus China in materials, capital and utilities; and **full utilisation**, to overcome the non-tariff barriers and the awareness gap that keep utilisation below 25%. Government must build the infrastructure, capital and trade-facilitation machinery; industry must invest in competitiveness, compliance and market development; and a small set of enablers - above all, raising MSME awareness - will determine how much of the opportunity is realised. The access is now in place; the task is to use it.

APPENDIX

Chemicals and textiles are the other two of the five priority sectors identified in Section III. They are strong UK/EU opportunities but are treated here rather than in the main body, which focuses on the three sectors where India's manufacturing stakes and domestic-capability gap are greatest. The following sections set out each, together with cross-cutting trade-facilitation themes; exhibit numbering continues in sequence.

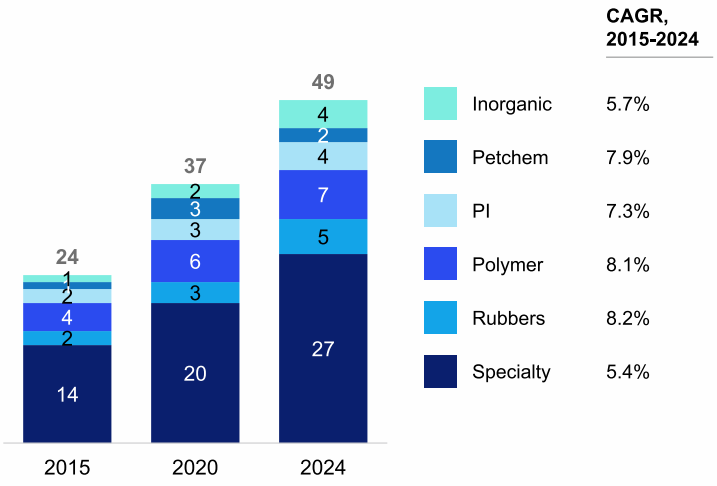
Appendix A. Chemicals

India's share of global chemicals trade remains limited at approximately 3%, against over 20% for China, more than 15% for the European Union and over 10% for the United States (Exhibit 3). Structural challenges on cost competitiveness - high feedstock costs, logistics inefficiencies and the absence of large, integrated clusters - are compounded by regulatory complexity and limited specialty R&D. Targeted interventions could unlock $35–40 billion of additional annual exports by 2030 (NITI Aayog): design flexible multi-grade supply chains; revamp the PCPIRs into world-class hubs; disburse R&D funds through an interface agency with academia (Exhibit 4); and align standards and expand testing capacity.

Exhibit 3. India's share of global chemicals trade

India has ~3% share in global chemical exports - China's chemical exports continue to take a disproportionate share of global trade

Indian chemical exports by sub-domain,[1]
2015-2024, $ billions



Top countries' share of chemical exports to global trade, 2015-2024

Country	Exports 2024 ($ billion)	% share of total[3]	CAGR, 2015-2024
China	326.2	21.0	8.1
Europe[2]	254.2	16.3	3.0
US	206.2	13.3	3.0
South Korea	85.5	5.5	3.6
Japan	74.2	4.8	1.1
India	48.8	3.1	7.5

~60

1. Includes HS codes in chapters 28, 29, 32, 38, 39, 40
2. Data aggregated at the 7 level
3. Calculates excluding internal trade of EU-27 states

Source: UN Comtrade, International Trade Map; McKinsey analysis

Exhibit 4. Priority chemical products for R&D and innovation

Shortlisted 11 products for technology unlocks

Prioritized segment	Key challenge
1 **Acetic acid**	*Limited access to the 'methanol carbonylation' tech while the 'acetaldehyde oxidation' route is not commercially viable owing to ethanol prices*
2 **SAP**	*Requires integrated play into acrylic acid; technology limited to the Western consolidated market and Chinese players*
3 **PC Resin**	*Concentrated technology with limited players*
4 **MDI and TDI**	*Limited players with tech know-how; requires phosgenation license*
5 **Nylon 6,6**	*Limited to players having access to Adiponitrile technology*
6 **Specialty polymers**	*Limited investment and innovation capabilities in building application-oriented high-tech compounds like PEEK, HPPA, etc.*
7 **Plastic additives (incl. flame retardants)**	*Limited access to low-cost raw materials (like P, Br, Sb, etc.) for integrated play coupled with little to no investment in manufacturing high performance additives*
8 **Food & Nutraceutical ingredients**	*Limited technology in fermentation, bio-processing and application development*
9 **Titanium Dioxide**	*Domestic restrictions for private players on mining restricts competitive play against global integrated players*
10 **Battery Chemicals**	*Non-existent domestic market coupled with high R&D investments*
11 **Electronic Chemicals**	*Extremely small domestic market coupled with high R&D investments*

Appendix B. Textiles

Textiles, apparel and handicrafts contributed 8.21% of India's total exports in FY24, and India ranks sixth-largest globally. The first structural challenge is the fibre mix: man-made fibres are approximately 70% of global demand but only about 30% of India's capacity, and almost three-quarters of global man-made fibre is PET, in which India has a feedstock endowment (Exhibit 5). The second is the operating model, where Bangladesh, Vietnam and China lead on scale, FDI and integration; even after tariff removal, India's landed cost for a basic T-shirt in the EU narrows from roughly 20% above Bangladesh to about 7% (Exhibit 6). The third is the rising importance of non-tariff barriers (REACH, traceability and the EU Forced Labour Regulation, effective December 2027).

Exhibit 5. Global demand versus India's fibre mix

MMF textile account for ~70% of global demand – India dominates in natural fibers accounting for ~70% capacity domestic capacity

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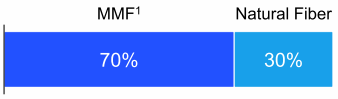
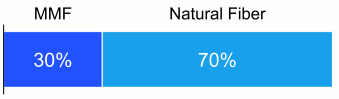
70% of global demand is MMF..



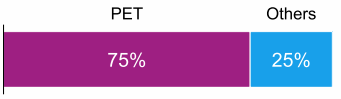
China owns more than 50% of global MMF capacity – large global brands such as H&M, Zara, Nike, Adidas etc. have established supplier ecosystems in China, Bangladesh and Vietnam for MMF textiles

..however, MMF accounts for only 30% India's capacity



- Historically, India built its textile base around cotton – large spinning capacity is cotton-heavy
- Access to MMF processing technology/ machinery challenging in India[2] – Government has taken actions such as PLI scheme for MMF, Mega textile parks (PM MITRA), reducing inverted duty structure

India has endowments for winning play in MMF – MMF RM, %



- PET is the key raw material used in MMF – India has surplus capacity
- Opportunity for textile industry to build MMF fabric and RMG[3]
- Several initiatives by GoI aim to scale MMF – PLI scheme for MMF, Mega textile parks (PM MITRA), reducing inverted duty structure etc.

1. MMF: Man-made Fiber
2. Economic Survey of India (FY'25)
3. RMG: Ready-made Garment

Exhibit 6. Illustrative T-shirt landed-cost comparison, India versus Bangladesh

Model: India's landed cost for T-shirt in EU will be ~7% higher than Bangladesh even after removal of tariff; currently it is ~20% higher

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India unit economics better than Bangladesh | Bangladesh unit economics better than India

Per piece (USD)		(pre-FTA)	(post-FTA)	What will it take for India to be competitive with Bangladesh
Fabric + trims	1.35	1.32	1.32	
Sewing labor (wage x productivity effect)	0.15	0.24	0.24	India can lift sewing efficiency materially e.g., through larger lines, standardization, Industrial Engineering capability
Factory overhead and compliance	0.55	0.55	0.55	Large-scale textile parks with common facilities[1] can lower fixed costs
FOB	**2.05**	**2.17**	**2.17**	
Ocean freight + insurance	0.12	0.15	0.15	Textile parks near ports can lower insurance in land logistics cost. Multiple GoI schemes trying to address logistics cost - PM Gati Shakti, Sagar Mala etc.
CIF EU	**2.17**	**2.32**	**2.32**	
EU Tariff	**0**	**0.28** *(12% of CIF)*	0	
Landed cost (ex-VAT)	**2.17**	**2.6**	**2.32**	

Illustrative unit economics for basic cotton knit T-shirt (RMG) shipped to EU. Actual FOB varies a lot by fabric spec, complexity, order size, compliance tier, and season.

1. such as utilities, warehouse, procurement, customs and export compliance

Appendix C. Cross-sectoral themes and the way forward

Beyond the sector-specific challenges, the principal reason for low utilisation is limited awareness among exporters, particularly MSMEs. The following provide a roadmap for government, industry and trade associations:

- **Address low awareness of FTA benefits** through help-desks at the Centre and in the States, incorporation of FTA awareness into state export-promotion policies, and district-wise utilisation tracking.
- **Build understanding of rules of origin, non-tariff barriers and MRAs** through sector-specific outreach - ESG standards for textiles, REACH for chemicals and quality standards for pharma.
- **Review and widen the coverage of earlier agreements**, several of which omit India's largest export categories, and negotiate mutual-recognition agreements where reviews are ongoing.
- **Strengthen future agreements** with periodic reviews and appropriate safeguard measures.

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ABOUT FICCI

Established in 1927, Federation of Indian Chambers of Commerce and Industry (FICCI) is the largest and oldest apex business organisation in India. Mahatma Gandhi addressed FICCI's 4th AGM in 1931. Our 98th AGM was held in November 2025. With our rich legacy, FICCI would play an even greater role as India strengthens its position as a leading global economy.

FICCI works with its key stakeholders to foster active engagement and dialogue with decision makers, to support steps that are good for commerce and industry. As a member-led and member-driven organisation, FICCI represents over 2,50,000 companies across all segments of economy including public, private and multinationals.

The diverse membership base of FICCI across all Indian states includes both direct and indirect members through its 300 affiliated regional and state level industry associations. FICCI has a large international presence via partner agreements with 250 national business associations in over 100 countries.

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