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**EDITORIAL ANALYSIS**

# India's FTA Reset — The CEPA Model and What It Gets Right

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# India's FTA Reset — The CEPA Model and What It Gets Right

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GS2

GS3

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The Indian Express

MAINS RELEVANCE:

GS Paper 2

GS Paper 3



## INTERVIEW ANGLE

*"India was famously reluctant to sign free trade agreements for over a decade after the ASEAN FTA experience. The post-2022 approach — shorter, more focused agreements like the UAE CEPA and Australia ECTA — represents a strategic pivot. Is this the right model? What are the risks, and which FTAs should India prioritise next?"*

Two years after the India-UAE Comprehensive Economic Partnership Agreement entered into force, the bilateral trade picture looks encouraging. Trade has roughly doubled from pre-CEPA levels. Indian exporters in gems and jewellery, pharmaceuticals, and textiles have accessed a lower-tariff UAE market. The agreement is, by most measures, performing as intended.

But the UAE CEPA's success should be read carefully — because it succeeded in part by being a specifically crafted agreement suited to a specifically structured relationship, not because it offers a universal template for India's FTA strategy.

## WHY INDIA WAS RIGHT TO BE CAUTIOUS ABOUT FTAS

India's post-2010 reluctance to sign FTAs is often caricatured as protectionist timidity. The reality is more nuanced — and the caution was justified by concrete experience.

The **ASEAN-India FTA** (2010) provided the defining negative case. Within years of implementation, India's trade deficit with ASEAN ballooned — not because Indian industries were uncompetitive in their own sectors, but because Chinese goods were being routed through ASEAN (particularly Vietnam and Thailand) with minimal processing, exploiting Rules of Origin gaps to access India's market at preferential duty.

India's electronics industry — particularly consumer electronics — was devastated. The ASEAN FTA effectively prevented India from building a domestic electronics manufacturing base while Chinese goods flooded the market via Southeast Asian intermediaries.

The lesson was not that FTAs are bad — it was that **poorly negotiated FTAs with weak safeguards are bad**. The ASEAN deal had inadequate Rules of Origin, minimal services chapters, and no meaningful review mechanisms.

## WHAT THE UAE CEPA DID DIFFERENTLY

The UAE agreement incorporated several structural improvements:

**Tight Rules of Origin:** 35-40% domestic value addition required for goods to qualify — making it difficult for Chinese goods to access Indian markets via UAE with cosmetic processing. (The gold provision remains a controversy, but even there, hallmarking and origin certification requirements provide some safeguard.)

**Services chapter with substance:** Indian IT professionals, healthcare workers, and financial services firms gained actual market access in UAE — not just aspirational provisions. The UAE's recognition of Indian professional qualifications was part of the deal.

**Built-in review mechanism:** A bilateral review is mandated after Year 2 and Year 5 — giving India the ability to course-correct if trade patterns deviate from projections (as happened with ASEAN).

**Exclusion of sensitive sectors:** Dairy, wheat, rice, and other politically sensitive agricultural commodities were excluded — protecting Indian farmers from import competition in sectors where they cannot compete on price.

**Speed without sacrificing substance:** 88 days of negotiation is extraordinary, but the speed was achievable because the UAE-India economic relationship is deeply asymmetric in a useful way — both sides had clear, non-overlapping interests. India wanted goods market access; UAE wanted services and investment liberalisation.

## THE HARD FTAS AHEAD

The UAE CEPA's relative ease was a function of structural complementarity. The agreements ahead are structurally harder:

**India-UK FTA:** Negotiations have been on and off for years. The UK wants India to reduce tariffs on Scotch whisky, cars, and financial services — all domestically sensitive. India wants easier mobility of its IT professionals in the UK (a hot-button immigration issue post-Brexit). The political economy on both sides makes compromise difficult. The genuine strategic interest in a deal — post-Brexit UK is keen on Indo-Pacific trade relationships — exists, but has not yet overcome the domestic lobbying resistance.

**India-EU FTA:** The EU is India's largest trading partner bloc. But the EU insists on provisions India finds difficult — carbon border adjustment (which would disadvantage Indian exports), labour standards clauses, sustainable trade provisions that could be used to challenge Indian product standards. India's concerns about data localisation and the EU's digital single market rules add another layer of complexity.

**India-GCC FTA:** This would bundle UAE into a broader Gulf framework — but Saudi Arabia’s petrochemical and aluminium industries are far more competitive threats to Indian producers than UAE’s, making the GCC framework politically harder than the bilateral UAE deal.

## THE RIGHT SEQUENCING

India’s FTA strategy should be guided by one question: **does this agreement expand genuine access for Indian exporters or only create import competition without equivalent market opening?**

By this logic, India should prioritise:

**India-UK FTA** — the UK market is deep, English-speaking, and has high demand for Indian services and manufacturing

**India-GCC FTA** — the \$3 trillion Gulf economy is critically important for energy security and diaspora remittances

**Selective deepening of India-ASEAN** — fix the rules of origin gaps rather than walking away from a regionally important relationship

And be cautious about:

**India-EU FTA** until the EU’s carbon border mechanism is better understood in its trade impact

**Any deal with China or China-proxy routes** without airtight rules of origin enforcement

The UAE CEPA shows India can do FTAs well when it is thoughtful about design. That discipline — not the 88-day negotiation speed — is the real lesson.

### UPSC RELEVANCE

India-UAE CEPA, India-ASEAN FTA, India-Australia ECTA, GATT Article XXIV, Rules of Origin, CEPA vs. FTA, GCC, CECA.

### MAINS GS-2:

India’s foreign trade policy; bilateral vs. multilateral trade architecture; WTO and FTAs.

### GS-3:

FTA impact on domestic industry; export competitiveness; services trade under CEPA.

### INTERVIEW:

“Should India prioritise multilateral trade liberalisation through WTO, or bilateral/regional FTAs? What are the trade-offs?”

**★ FACTS CORNER — KNOWLEDGEPEDIA**
**INDIA'S KEY FTAS:**

ASEAN-India FTA: **2010** (goods; controversial due to trade deficit, China routing)

India-Japan CEPA: **2011**

India-South Korea CEPA: **2010**

India-UAE CEPA: **May 2022** (fastest concluded major FTA — 88 days)

India-Australia ECTA: **December 2022** (interim; full CECA in negotiation)

**ASEAN FTA LESSON:**

India's trade deficit with ASEAN grew post-2010 due to Chinese goods routed via Vietnam/Thailand

Weak Rules of Origin allowed bypass; India's electronics sector hurt

**UAE CEPA SUCCESS FACTORS:**

Tight Rules of Origin (35-40% value addition)

Services chapter with real UAE market access for Indian IT/healthcare

Built-in review mechanism (Year 2, Year 5)

Exclusion of sensitive agriculture (dairy, wheat, rice)

**INDIA-UK FTA ISSUES:**

UK wants: Scotch whisky tariff cut, car tariffs, financial services

India wants: IT professional mobility, immigration pathway

Status: Advanced but stalled (political economy)

**INDIA-EU FTA COMPLICATIONS:**

CBAM (Carbon Border Adjustment Mechanism): Taxes carbon-intensive imports; disadvantages Indian steel, cement, fertiliser exports

EU also wants labour and environmental standards clauses

**OTHER RELEVANT FACTS:**

WTO Article XXIV GATT: FTAs must cover "substantially all trade" (typically 80-90%)

Trade diversion: When FTA causes imports to switch from efficient non-member to less-efficient member due to tariff advantage

Trade creation: When FTA reduces prices allowing consumers to switch from expensive domestic goods to cheaper imports — the beneficial effect of FTAs

Sources: Indian Express, Ministry of Commerce, PIB

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