

Turbo-Charging FTAs: India's chance for a 1991-style growth moment

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Synopsis

India is embracing new trade deals, moving away from protectionism. This shift offers significant economic opportunities and risks. To succeed, India must focus on key export sectors and reduce costs. Strategic reforms and improved infrastructure are crucial. Firms need access to cheaper capital, reliable power, and skilled labor.



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Piyush Doshi

Operating partner, The Convergence Foundation



Swagato Ganguly

Swagato Ganguly is senior fellow, The Convergence Foundation

Hammer blows to the multilateral trading system have ushered in a new world, to which India is swiftly responding by shedding its earlier reputation for protectionism and trade diffidence. It has signed a raft of FTAs, culminating recently in the 'mother of all deals' with the EU. It's also reached an 'interim agreement' with the US, bringing down punitive tariffs, but also committing India to eliminate or reduce tariffs on all US industrial goods and agricultural ones.

Greater openness raises the economic stakes, giving rise to opportunity as well as risk. Being competitive is of existential importance for India Inc and the economy. If we can maximise this opportunity and minimise risks, this can be another '1991' moment.

Exports are essential for India's growth, and FTAs are essential for a competitive shot at exports. A belief that India can't compete with other nations has cost it years of economic growth. While it will still not be able to win in all sectors, it needs to believe that it can dominate a few. Overall, India must target some 'FTA scale-plays' where it can win.

Pick winners Rather than spreading itself too thin, India should pick 5-7 lines where it can be among the top 3 suppliers into partner markets - say, textiles-garments, chemicals, auto components, pharma, electronics assembly and processed foods. It should then streamline all elements that will make these sectors run smoothly: regulations, standards, testing labs, credit and logistics corridors.

If India is still not able to compete in certain sectors, despite a labour-cost advantage of over 10x compared with countries it has recently signed FTAs with, then wisdom dictates that those sectors should not be protected. Rather, Indian consumers and producers should have access to the best products, raw

materials and capital goods at globally competitive prices.

The biggest hidden risk in liberalisation and opening its markets through FTAs is trans-shipments from a country like China via the FTA route. China does enjoy cost advantages over India in most categories, magnified in many cases through mercantilist methods such as overcapacity and dumping. In this case, India's first line of defence must be data-led rules-of-origin verification, risk scoring and penalties. Otherwise, tariff cuts will become 'China Plus One' via FTA.

Reduce costs For India to fire on all cylinders of competitiveness, it must also do everything possible to bring down input and factor costs for all sectors. In that sense, improved infrastructure, logistics and trade facilitation can be India's top export subsidy (with the additional advantage of being WTO-compliant). Think rapid port turnaround, reduced customs dwell time, advanced inland logistics and paperwork digitisation. These shave costs for every sector without picking winners.

India should use Vietnam as its benchmark, and close specific gaps. This calls for some 'hard' reforms to bring down factor costs - for instance, in power, land and capital - going beyond the low-hanging fruit that has already been picked.

Vietnam's secret sauce is policy consistency, trade facilitation and plugging into supply chains. India must replicate all of this and focus on the 'boring fundamentals': stable and rationalised tariff policy, fast refunds, predictable compliance and industrial clusters linked to ports/air cargo.

Survival kit for firms Cheaper capital, a reliable power supply at competitive rates, greater scale and necessary skills. The practical package is a lower cost of credit for exporters, faster GST refunds, easier availability of land and permits in export clusters, and workforce skilling tied to specific product lines, so that firms can scale before tariff walls come down fully.

India has thoughtfully negotiated import tariffs that fall over time, instead of all at once. But time is short. This interval needs to be leveraged to the hilt for Indian industry to emerge fighting fit.

India's manufacturing has been stuck at around 16-17% of GDP, and its share of global manufacturing is around 2.8%, even as India has almost 20% of the world's workforce. This leaves close to half of its workforce trapped in less-productive agriculture.

Recent trade deals provide India with the opportunity to break out of this vicious cycle and trigger a virtuous one - provided it grabs this opportunity with both hands. Hopefully, the trade deals themselves will provide the impetus. We need to get this right. Because halfway houses are no longer available.