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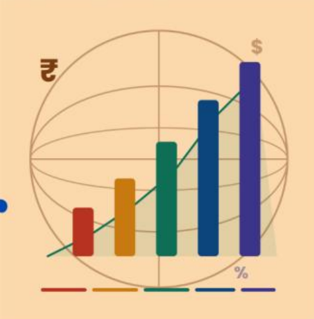

August 2026

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DIRECTOR'S INSIGHTS

From Bretton Woods to Contemporary Trade Governance: The Evolution of the Global Trading System and India's Liberalization Journey

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The global trading system has undergone a profound transformation since the establishment of the Bretton Woods institutions and the General Agreement on Tariffs and Trade (GATT). This article traces the evolution from post-war multilateral trade liberalisation to the contemporary proliferation of regional and bilateral trade agreements. It examines how the establishment of the World Trade Organization (WTO), the growing complexity of global value chains, and the stagnation of multilateral negotiations have reshaped international trade governance. Against this global backdrop, the article traces India's trade policy evolution since the 1991 economic reforms across four distinct phases, from cautious regional liberalisation to strategic and comprehensive economic partnerships. The authors highlight how India's expanding FTA network reflects a broader transition towards deeper integration, supply-chain resilience, digital trade, investment, and strategic economic cooperation in an increasingly fragmented global trading system.

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Global Economy

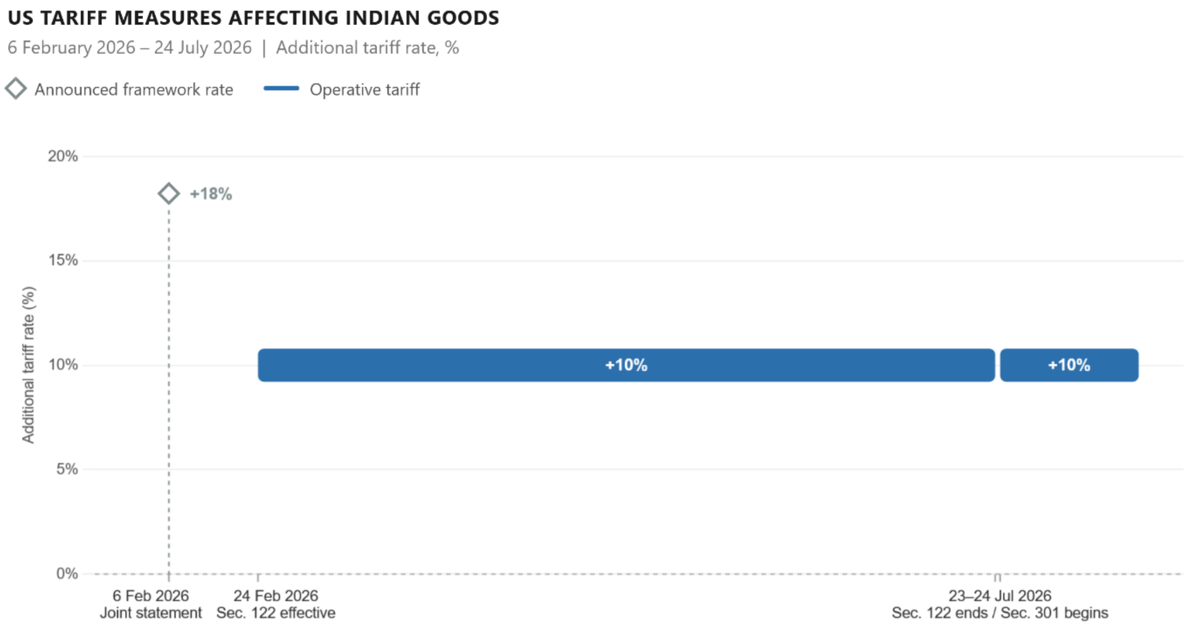
- The global growth outlook remains resilient but increasingly uneven. The IMF's July 2026 World Economic Outlook projects global growth at 3.0% in 2026 and 3.4% in 2027, with the effects of the Middle East war partly offset by stronger technology investment and AI-related demand. Global headline inflation, however, has been revised up to 4.7% for 2026, indicating that the disinflation process has stalled.
- Energy markets have begun to stabilise but remain highly sensitive to geopolitical developments. The IEA reported that global oil supply rebounded by 4.1 million barrels per day in June to 98.8 million barrels per day, following the partial restoration of flows through the Strait of Hormuz. Benchmark crude prices fell to around US$68 per barrel in June but rose to around US$77 per barrel after the ceasefire was breached in early July. The IEA expects global oil demand to decline by around 1 million barrels per day in 2026, before recovering in 2027.
- Major central banks remain cautious as energy-related inflation complicates the policy outlook. The US Federal Reserve maintained its federal funds target at 3.5–3.75% on July 29, while three FOMC members dissented in favour of a 25-basis-point increase. The ECB also kept its policy rates unchanged on July 23, citing elevated energy prices and uncertainty about the indirect and second-round effects of the shock.

Special Focus

India Is Still in America's Tariff Crosshairs. Only the Legal Route Has Changed.

- India appeared to secure a substantial tariff concession in February 2026. The US-India trade framework announced that the reciprocal tariff on Indian goods would be reduced from 25 per cent to 18 per cent. Before that rate acquired a durable legal footing, however, the US Supreme Court ruled on 20 February that the International Emergency Economic Powers Act (IEEPA) did not authorise the President to impose tariffs. The legal basis for the reciprocal tariff regime had collapsed.

- The reprieve lasted four days. A temporary 10 per cent import surcharge under Section 122 of the Trade Act took effect on 24 February. Section 122 can be used for no more than 150 days without congressional extension, so the surcharge expired on 23 July. The following day, a new 10 per cent tariff on most Indian goods took effect under Section 301. The handover was almost seamless. One legal instrument expired; another immediately replaced it.
- The justification had changed. Section 122 was presented as a temporary response to the United States' balance-of-payments deficit. The Section 301 action followed an investigation into countries that allegedly failed to prohibit and effectively prevent imports produced using forced labour. India adopted such an import prohibition, which placed India in the lower 10 per cent category rather than the 12.5 per cent rate applied to economies that had not taken comparable action. Specified products, including goods already covered by Section 232 tariffs and products listed in the USTR annexes, are exempt.



Source: US–India Joint Statement, 6 February 2026 (The White House); US Supreme Court judgment, 20 February 2026 (No. 24-1287); White House Section 122 proclamation, 20 February 2026; USTR Section 301 final action, 23 July 2026.

- A 10 per cent rate may look preferable to the 18 per cent announced in February, but this is not a straightforward tariff reduction. The 18 per cent figure formed part of a negotiated framework under the IEEPA regime. The current 10 per cent is a new Section 301 duty that generally sits on top of the ordinary most-favoured-nation tariff. The legal route, product coverage and justification are all different.

- The broader trajectory is even more revealing. The February framework linked tariff treatment to Indian tariff reductions on US industrial and agricultural products, non-tariff barriers, digital trade rules and intended purchases of US energy, aircraft, technology products, precious metals and coking coal. An earlier additional 25 per cent duty on Indian goods had explicitly been tied to India's purchases of Russian oil. It was removed from 7 February after the White House said that India had committed to stop those purchases and increase imports of US energy. Trade policy, domestic regulation and foreign-policy alignment are no longer being negotiated in separate compartments.
- The US importer pays the tariff at the border, but the economic burden does not necessarily remain there. Importers can raise prices, ask Indian suppliers to accept lower prices, reduce orders or shift sourcing to another country. Exporters selling specialised or difficult-to-replace products may retain some bargaining power. Smaller suppliers in textiles, apparel, leather, footwear, home décor and other labour-intensive sectors have much less room to absorb an additional 10 percentage points without cutting margins, wages or production.
- Rising export values would not, by themselves, prove that the tariff had caused little damage. Firms may front-load shipments before a duty takes effect. Export earnings may also contain substantial imported content, particularly in assembly-based industries. What matters is the domestic value added, employment and productive capability embodied in those exports, not simply the gross value of goods leaving Indian ports.
- India's response therefore cannot be confined to temporary export incentives. Firms will need help with market diversification, trade finance, origin documentation, labour-standard compliance and supply-chain traceability. Product-specific exclusions should be pursued where US buyers depend heavily on Indian supplies. The longer-term task is to raise domestic value addition so that exporters have stronger margins and more bargaining power when trade conditions change.
- The central risk is no longer an exceptionally high tariff. It is a trade relationship in which market access can be repeatedly revised through new statutes, regulatory demands and geopolitical conditions.
- India is operating in a trading system where tariffs, labour standards, energy sourcing and strategic alignment are increasingly bundled together. Negotiating a lower headline rate will not, by itself, provide exporters with policy certainty.

Indian Economy: Agriculture & Rural Economy

- A significant policy development in July 2026 was the implementation of the Viksit Bharat - Guarantee for Rozgar and Ajeevika Mission (Gramin) [VB-G RAM(G)] Act, 2025, which replaced the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). The programme represents a major rural development initiative with a financial commitment exceeding ₹1.25 lakh crore.
- The revised programme expands the employment guarantee from 100 to 125 days, including a 60-day seasonal pause, introduces a revised 60:40 Centre-State funding model (90:10 for Himalayan and Northeastern states), and is supported by ₹95,692 crore in initial state-level allocations. Additionally, the government announced an ₹8,508 crore rural development package for West Bengal during the month.
- Monsoon conditions improved substantially during July 2026 following delayed rainfall in June. The cumulative rainfall deficit narrowed from 35-40% at the end of June to approximately 12-16% by the end of July, reflecting above-normal precipitation during the month. Nevertheless, forecasts indicated relatively weaker rainfall during the initial part of August, with evolving El Niño conditions continuing to pose risks to seasonal rainfall patterns.
- Agricultural activity recovered alongside the improvement in rainfall. Cumulative Kharif sowing reached approximately 78.7 million hectares, reducing the year-on-year sowing deficit from 23% at the end of June to nearly 3% by the end of July. Rice cultivation also demonstrated significant recovery, with sowing reaching approximately 23.4 million hectares, indicating improved agricultural prospects despite the delayed onset of the southwest monsoon.

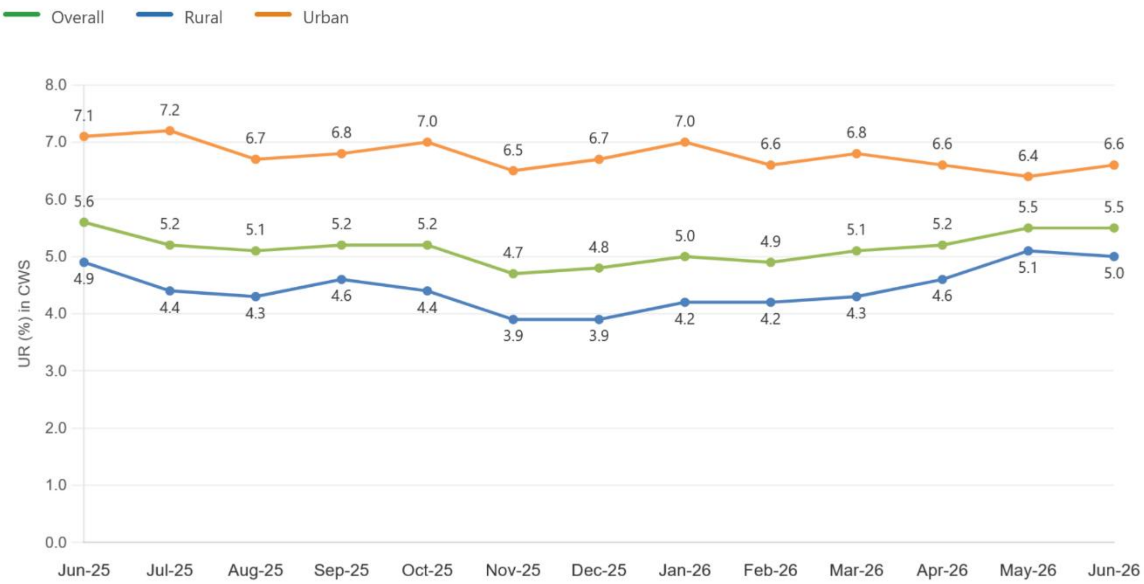
Indian Economy: Labour Market

- The monthly bulletins are not generally for checking month-on-month changes. Instead, the actual reading from the PLFS (Periodic Labour Force Survey) monthly bulletins is how the labour market takes shape over the months.
- For example, the LFPR (Labour Force Participation Rate), WPR (Worker Population Ratio) and UR (Unemployment Rate) figures remain intact in June 2026 compared to May and April 2026.

- However, the key observation is the rural LFPR, which rose from 56.1% in Jun 25 to 59% in Dec 25. It then started declining from its peak of 59% in Dec 25 and again reached 56.6% in Jun 26.
- This is only the first year of PLFS monthly employment bulletin, and we need more data to confirm whether any such seasonal trend exists in the Indian labour market.
- This trend is not visible in urban LFPR. The quarterly release of rural LFPR does not reveal the kind of trend we observe from monthly data.
- The urban UR, be it among male or female, remains a big concern.
- Around 6.5% urban male and around 9% urban female report themselves as 'actively looking for work'. In absolute terms, this figure is in millions.
- While millions of women (on Current Weekly Basis-CWS) report 'available and seeking work', research shows a lot of women have stopped looking for work and their numbers are not part of UR. Hence, they are out of labour force.
- Further, this is an interesting phenomenon of Indian labour market where urban female LFPR and WPR are lesser compared to rural LFPR and WPR. This particular trend is a common feature of South Asia, MENA, and African countries.

INDIA'S UNEMPLOYMENT RATE BY AREA

June 2025 – June 2026 | Current Weekly Status (CWS), Persons aged 15 years and above



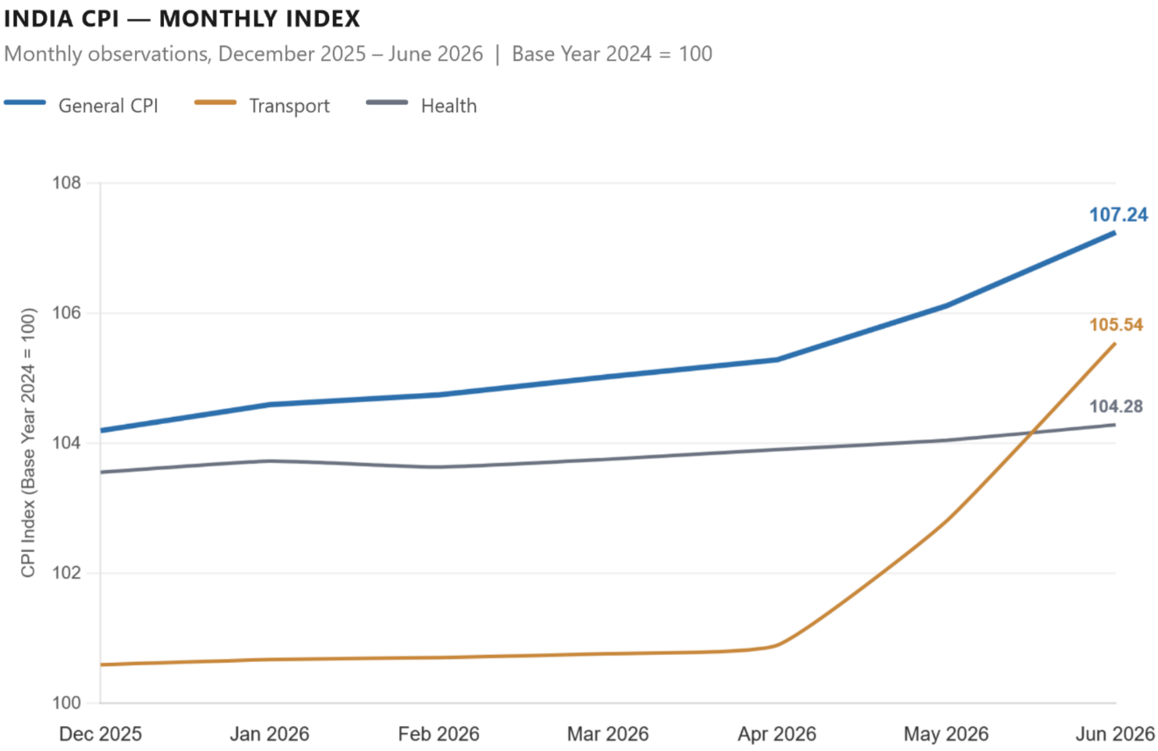
Source: Ministry of Statistics and Programme Implementation (MoSPI), Periodic Labour Force Survey (PLFS) Monthly Bulletin, June 2026.

Note: Current Weekly Status (CWS) estimates for persons aged 15 years and above. The data represent monthly unemployment rates for rural, urban and overall India.

Indian Economy: Inflation

- The monthly CPI (Consumer Price Index) figures were released on July 13, 2026, by MoSPI.
- While YoY CPI inflation remains around 4-5%, common people do complain about rising inflation.
- This remains a mystery: people say they are facing a high inflationary pressure, but official statistics do not reflect the same. While economists and policy researchers have their own answers on this, my assessment lies in heterogeneity.
- India is a diverse country. Here, the inflation ranges from 7.79% food inflation in Telangana to 4.94% food inflation in Madhya Pradesh. Further, inflation differs significantly in different divisions: 16.72% in personal care, social protection and miscellaneous goods and services to 0.43% in information and communication.
- Public opinions are also being formed on who consumes what. Moreover, the expenditure size also decides the actual realizations of inflation for a household. For example, if a household spends more on high inflationary divisions, then they experience high inflation.
- Further, all the commentary in this section is based on the assumption or the understanding of the fact that 3-4% range of inflation is normal.
- What constitutes normal inflation, and what is considered a different normal, may change the entire perspective on inflation.
- The CPI figures deserve some critical scrutiny. If inflation in May 2025 was 100 and in May 2026 was 105 so the YoY is 5%. But if the inflation was 106 in June 2025 itself and 106 again in June 2026 so the YoY for June is 0%. Hence, the YoY of May 2026 indicates that inflation has increased by 5%, even though it had already reached there in June 2025.
- For example, health is our exact scenario, in reverse. The MoM is a steady drip of +0.1-0.2% every month so prices are quietly rising the whole time. Yet the YoY headline falls from 2.12% to 1.41%. Nothing decelerated in current prices; the headline dropped purely because the year-ago base months (early-mid 2025) had bigger increases that are now rolling out of the 12-month window.
- Reading ‘Health inflation is cooling’ from the YoY would mislead you as the current prices are doing the same modest ~0.15%/month they always were. This is a pure base effect. Transport is the opposite; YoY is not a base-effect illusion here. Jan-Apr, both

MoM and YoY, sit near zero (flat). Then May (+1.89%) and June (+2.66%) show a real, large price jump happening right now (fuel). The YoY of 4.37% reflects actual current momentum. In fact, the year-ago base worked against it, June 2025's index (101.12) was a local high, so this YoY understates how fast transport is climbing this moment.



Source: Ministry of Statistics and Programme Implementation (MoSPI), Consumer Price Index (Base Year 2024 = 100).

Note: MoM = month-on-month change in the index; YoY = year-on-year inflation. YoY is available only from January 2026 under the Base Year 2024 series. Figures are not seasonally adjusted.

- General CPI is a mix, the MoM clearly accelerates in May (+0.79%) and June (+1.07%), so a real chunk of the rise from 2.73% to ~4.7% YoY is current momentum, not just the base effect.

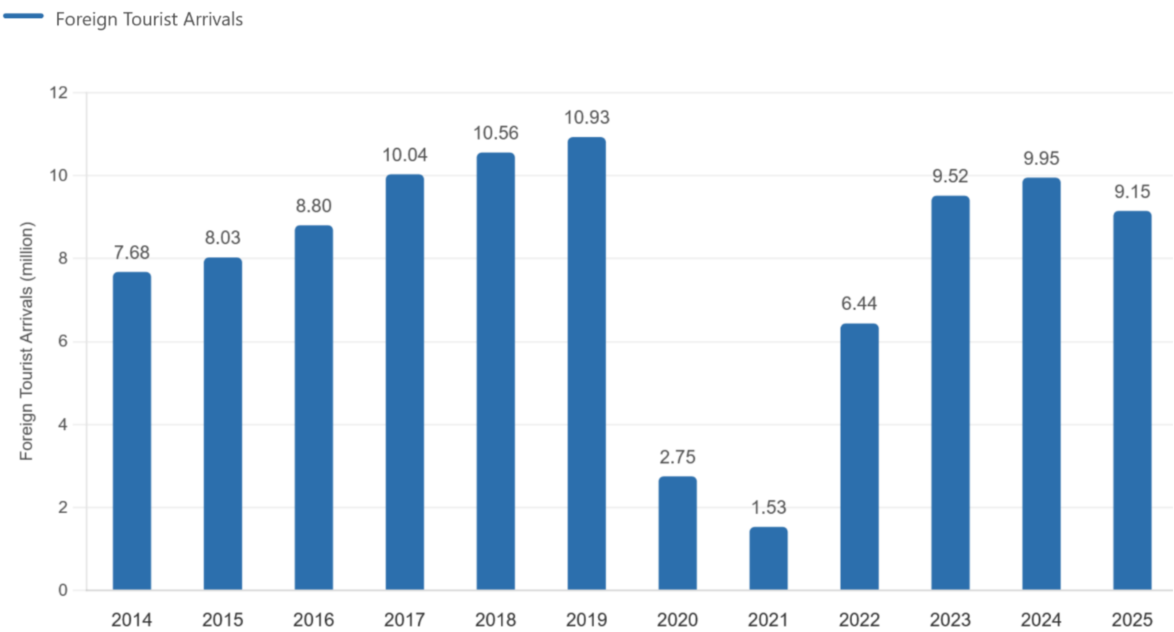
Indian Economy: Infrastructure

- MoSPI released the quarterly update of its PAIMANA (Project Assessment, Infrastructure Monitoring and Analytics for Nation-building) Performance Monitoring Dashboard, which tracks key infrastructure sub-sectors through standardized indicators to support evidence-based policymaking.
- The dashboard grew to 165 indicators with 54 new additions, spread across Civil Aviation (31), Roads (8), Power (14), Ports/Shipping/Waterways (62), Telecom (13), and Railways (37).

- Strong telecom and aviation growth. Telecom subscribers rose 10.7% to 133.06 crore and mobile data consumption hit 2,85,376 PB (up 24.7% YoY). Civil aviation cargo grew 11.8% in April 2026, with aerodromes increasing to 165.
- Roads and railways progress. 9,360 km of National Highways were built in FY 2025-26, and electronic toll transactions rose 40.3%.
- Railways reached a record carrying capacity of 64.0 tonnes per broad-gauge wagon and ~19.98 million daily passengers.
- Power sector storage expansion. Energy storage needs are projected to jump more than tenfold, from 87 GWh (2027-28) to 888 GWh by 2035-36, driven by Battery Energy Storage Systems and Pumped Storage Plants.
- India's inbound tourism is resilient but stalled. The sharp post-COVID rebound shows foreign demand is structural, not fragile. Travellers returned fast once borders reopened. But arrivals have plateaued just below the 2018-19 peak, meaning India is recovering rather than growing, and likely losing share in an expanding global travel market.
- The bottom line: civil aviation is delivering on trade, tourism, and connectivity, but that flat ceiling since 2018-19 is the honest caveat on the success story.

FOREIGN TOURIST ARRIVALS IN INDIA

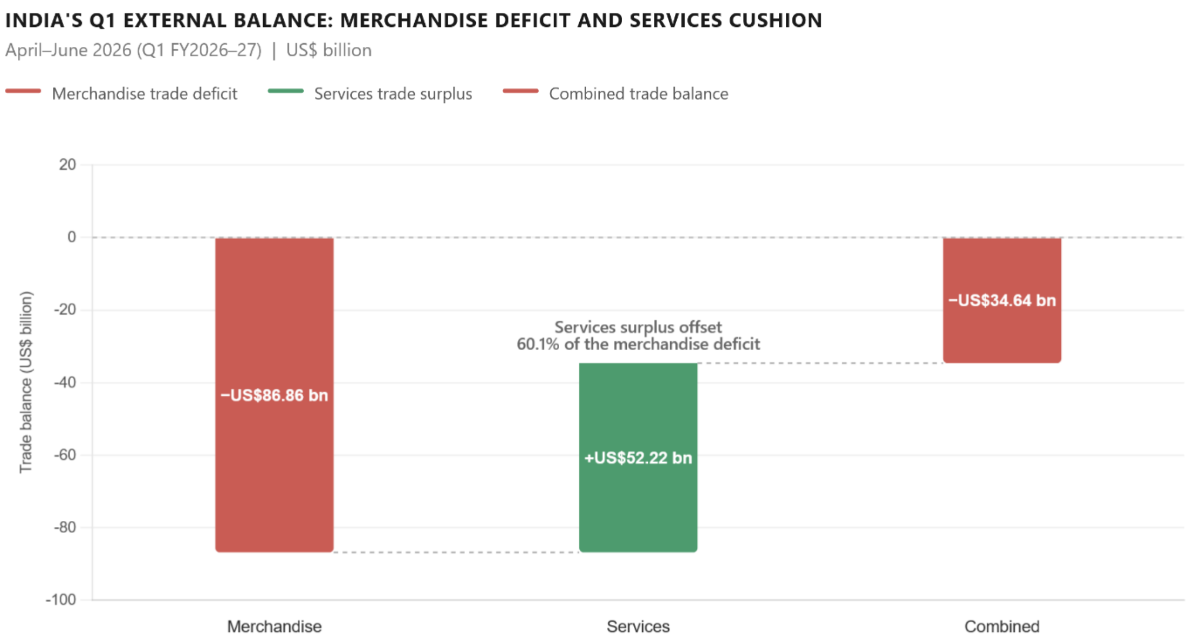
Calendar Year, 2014–2025 | Millions



Source: Ministry of Tourism, Government of India, PAIMANA Tourism Data Portal.

Indian Economy: External Sector & Financial Markets

- India's exports grew strongly during the first quarter of FY2026-27, but imports grew faster. Merchandise exports reached US$129.32 billion during April-June, an increase of 15.92 per cent over the previous year. Merchandise imports rose by 19.9 per cent to US$216.18 billion. The resulting goods deficit widened to US$86.86 billion from US$68.75 billion a year earlier. According to the RBI, imports of crude oil, electronic goods and gold were the principal drivers of the widening gap.
- The services figures provide the necessary counterweight. RBI's provisional monthly data put services exports at US$106.75 billion during April-June and services imports at US$54.53 billion. The services surplus was therefore US$52.22 billion, offsetting slightly more than 60 per cent of the merchandise deficit. Combining the merchandise and RBI's revised services figures, total exports reached approximately US$236.07 billion, while imports stood at US$270.71 billion. The overall trade deficit was about US$34.64 billion, compared with US$20.85 billion in the corresponding quarter of the previous year.



Source: Merchandise data — Ministry of Commerce and Industry, India's Trade during June 2026 (PIB); Services data calculated from the Reserve Bank of India's monthly services-trade release for June 2026.

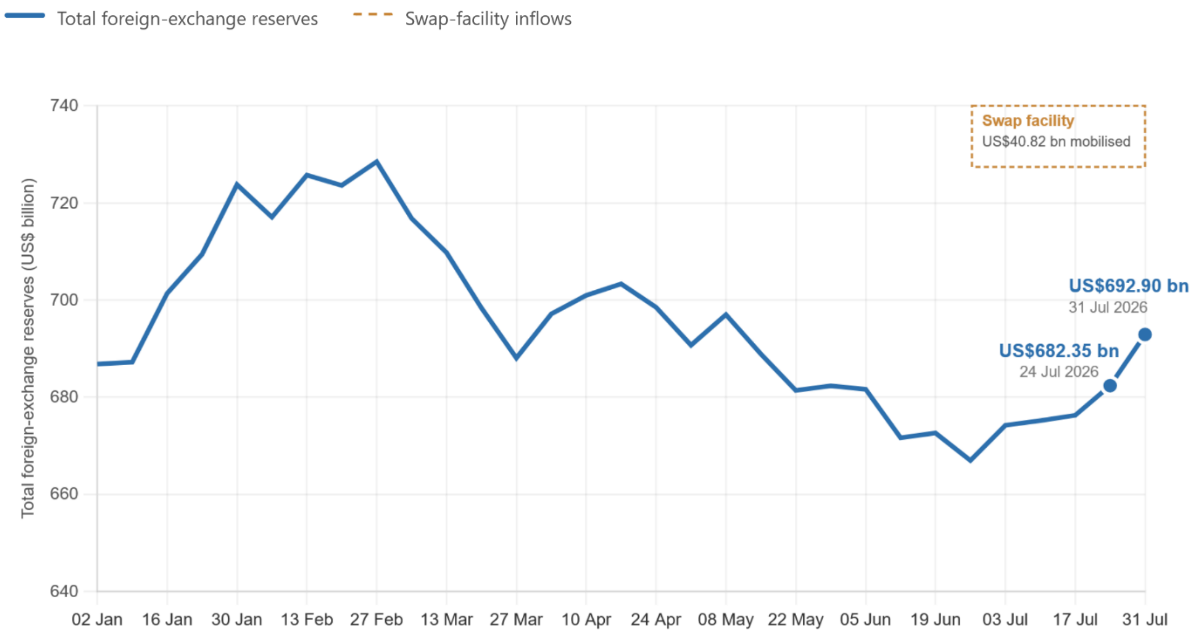
Note: Services values are calculated by summing RBI's provisional monthly observations for April, May and June 2026.

- Remittances provide another cushion, although they must not be confused with services exports. Net transfers, primarily workers' remittances, reached US$29.6 billion during April-May 2026, up from US$20 billion during the same period a year earlier. Taken together, services earnings and remittances explain why India can sustain a large merchandise deficit without immediately generating a balance-of-payments crisis.

- Foreign-exchange reserves stood at US$692.9 billion on 31 July, up by approximately US$10.5 billion from US$682.35 billion on 24 July. This gives the RBI substantial room to curb disorderly currency movements. The RBI estimates that the reserve stock provides more than ten months of import cover and covers 90.8 per cent of India's external debt.

INDIA'S FOREIGN-EXCHANGE RESERVE BUFFER

Week ending, 2 January – 31 July 2026 | US$ billion



Source: RBI Weekly Statistical Supplement; RBI Governor's Statement, 5 August 2026; RBI report on inflows mobilised under the swap facility.

Note: Swap-facility inflows are shown as a contextual annotation only. They are not plotted as reserves and do not represent a one-to-one addition to the reserve stock.

- The reserve increase should not, however, be read as evidence of an equivalent improvement in the current account. By 31 July, the RBI's concessional swap facility had mobilised US$40.82 billion in foreign-currency inflows. FCNR(B) deposits accounted for US$36.73 billion, with external commercial borrowings and overseas foreign-currency borrowings contributing the remainder. The timing and scale of these inflows suggest that they contributed to the reserve accumulation, although valuation changes and RBI operations also affect the weekly reserve figure. Unlike export receipts, the underlying deposits and borrowings create future repayment obligations.
- Portfolio flows tell a similarly qualified story. Foreign portfolio investment recorded net inflows of US$7.1 billion during June and July, reversing the outflows seen in April and May. The recovery was driven primarily by debt. For April-July as a whole, FPIs

still recorded net outflows of US$4.3 billion. Equity outflows amounted to US$11.6 billion, while the debt segment attracted US$7.3 billion.

- Measures taken by the Government and the RBI helped draw foreign investors into government securities. These included bringing new 15-, 30- and 40-year securities under the Fully Accessible Route, relaxing macroprudential restrictions and providing a tax exemption for eligible FPI investment in government securities. G-sec yields consequently eased across maturities during June and July. The composition again matters: stronger debt inflows can support reserves and the bond market, but they do not represent the same kind of external strength as export earnings, remittances or long-term direct investment.
- India is not facing an external-sector crisis. Nor is its resilience costless or automatic. Services earnings and remittances are relatively durable sources of foreign exchange. Portfolio investment can reverse quickly. FCNR deposits and external borrowings strengthen the immediate reserve position but create future liabilities. Policy must therefore protect India’s services competitiveness while reducing the energy, electronics and intermediate-input dependence that keeps the merchandise deficit structurally large.

Indian Economy: Fiscal Developments, Investment & Monetary Policy

- India's fiscal performance remained robust during July 2026, supported by strong indirect tax collections. Gross Goods and Services Tax (GST) revenue reached ₹2.11 lakh crore, representing a 15.4% year-on-year increase over July 2025. This marks only the second occasion in the current fiscal year that monthly GST collections have surpassed the ₹2 lakh crore threshold and reflects the highest growth rate since May 2025, when collections expanded by 16.4%.
- Import-related GST collections recorded particularly strong growth, rising 28.8% year-on-year to ₹66,511 crore, while domestic GST revenues increased by 10.1% to ₹1.45 lakh crore. These figures indicate sustained economic activity, resilient domestic consumption, and robust import demand, contributing positively to the government's revenue position.
- Investment activity remained favourable throughout July 2026. Foreign Portfolio Investors (FPIs) invested approximately ₹20,200 crore in Indian equities, supported by exchange rate stability and relatively attractive market valuations. Simultaneously,

Domestic Institutional Investors (DIIs) continued their sustained buying momentum, contributing ₹35,099.25 crore to domestic equity markets.

- The Asian Development Bank (ADB) proposed a US$1 billion loan to support India's urban transformation agenda. The initiative seeks to strengthen sustainable urban infrastructure by mobilising commercial capital and promoting the development of municipal bond markets.
- Primary capital markets also witnessed renewed momentum, with several significant public offerings and a strong pipeline of large initial public offerings (IPOs) expected during the second half of the year.
- The RBI maintained the policy repo rate at 5.25% while retaining a neutral monetary policy stance. This approach reflects the central bank's commitment to balancing inflation control with sustaining economic growth amid continuing global trade uncertainties, geopolitical tensions, and volatility in commodity and crude oil prices. The neutral stance provides the RBI with sufficient policy flexibility to respond to evolving domestic and global macroeconomic conditions.

What to Watch Out For

- The durability of the West Asia ceasefire and the normalisation of traffic through the Strait of Hormuz will remain critical for the global outlook. Any renewed escalation could disrupt energy supplies, raise shipping and insurance costs, and reverse the recent moderation in crude oil prices, with implications for inflation, trade and growth worldwide.
- The implementation of the new US tariff regime will remain important for global trade and supply chains. Businesses and governments will need to adjust to the new tariff structure while negotiating exemptions and bilateral arrangements. A prolonged increase in trade barriers could accelerate supply-chain realignment and raise costs for globally integrated economies.
- Domestically, the RBI's policy stance will remain closely linked to the evolution of inflation and global energy prices. With the repo rate unchanged at 5.25% and the policy stance remaining neutral, the scope for further monetary easing will depend on whether inflation remains contained and crude oil prices stabilise. A sustained increase in energy prices could limit room for rate cuts and affect the outlook for growth and inflation.

Director's Insights

From Bretton Woods to Contemporary Trade Governance: The Evolution of the Global Trading System and India's Liberalization Journey

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Introduction

Free trade has long been regarded as the foundation of international economic cooperation. In theory, unrestricted trade enables resources to flow efficiently across borders, maximizing global economic welfare. In practice, however, governments often impose tariffs, quotas, subsidies, and regulatory measures to protect domestic industries, address strategic concerns, and achieve broader developmental objectives. Consequently, complete free trade has remained more of an idea than a reality. Contemporary international trade extends well beyond the classical principles of absolute and comparative advantage. It is increasingly shaped by technology, multinational corporations, global value chains, digital commerce, geopolitics, and strategic industrial policies.

The international trading system has evolved over the last eight decades, since the Second World War and the creation of the Bretton Woods System (1944). It began with the formation of key institutions such as the International Monetary Fund (IMF) and the World Bank, commencing operations in 1945. This was followed by the General Agreement on Tariffs and Trade (GATT) in 1947 which laid the foundation for a rules-based global trading system. GATT promoted tariff reduction and non-discrimination, with trade liberalisation negotiated progressively across eight rounds between 1947 and 1994.

Table 1: GATT Rounds over the years

GATT Round	Year(s)	Key Outcome
Geneva	1947	GATT established; first tariff concessions negotiated
Annecy	1949	Additional tariff reductions
Torquay	1950-51	Further tariff liberalisation and expansion of membership
Geneva	1956	Continued tariff negotiations

Dillon	1960-62	Tariff adjustments following the creation of the European Economic Community
Kennedy	1964-67	Average tariff cuts of about 35%; Anti-Dumping Code introduced
Tokyo	1973-79	Reduction of non-tariff barriers; codes on subsidies, standards and procurement
Uruguay	1986-94	Creation of the WTO; agreements on agriculture, services (GATS), intellectual property (TRIPS), and dispute settlement

Source: World Trade Organization (2025), The GATT years: From Havana to Marrakesh.

The General Agreement on Tariffs and Trade (GATT), established in 1947, laid the foundation for a rules-based multilateral trading system. Between 1947 and 1994, GATT members conducted eight major rounds of trade negotiations, beginning with the Geneva Round (1947) and culminating in the Uruguay Round (1986-1994). These negotiations progressively reduced tariffs and other trade barriers, particularly among industrialized economies. Average tariffs on manufactured goods declined from around 40 per cent in the immediate post-war period to below 4 per cent by the end of the Uruguay Round, contributing significantly to the expansion of global trade. Beyond tariff reductions, successive rounds broadened the scope of trade negotiations to include anti-dumping measures, customs valuation, subsidies, technical barriers to trade, agriculture, services, and intellectual property, thereby laying the institutional foundation for the establishment of the World Trade Organization (WTO) in 1995.

World Trade Organization and the Rise of Free Trade Agreements

The evolving multilateral trading framework was further strengthened with the establishment of the World Trade Organization (WTO) on 1 January 1995, replacing the GATT. While GATT primarily governed trade in goods, the WTO expanded the scope of global trade governance to include trade in services through the General Agreement on Trade in Services (GATS), intellectual property rights through the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), agriculture, dispute settlement, and trade policy reviews. As of August 2026, the WTO comprises 166 member economies, accounting for over 98 per cent of global trade, and continues to provide a rules-based framework for international commerce.

Despite these institutional advancements, achieving further multilateral trade liberalisation became increasingly difficult. Unlike the GATT negotiations, which involved a relatively smaller group of countries, WTO decisions are based on consensus among a diverse membership with differing levels of development and often conflicting economic interests. The Doha Development Round, launched in 2001, sought to place the developmental concerns of developing countries at the centre of global trade negotiations. However, persistent disagreements over agricultural subsidies, market access for industrial goods, services liberalisation, and special and differential treatment prevented meaningful progress. The failure of the Seattle Ministerial Conference (1999), the collapse of negotiations at the Cancún Ministerial Conference (2003), and disagreements surrounding the Singapore Issues comprising investment, competition policy, transparency in government procurement, and trade facilitation highlighted the growing complexity of achieving consensus within the multilateral trading system. Although the Bali Package (2013) and the Trade Facilitation Agreement, which entered into force in 2017 following its adoption in 2013, demonstrated that limited progress remained possible, the broader Doha Round has remained effectively stalled.

The slowdown of multilateral negotiations encouraged countries to increasingly pursue Regional Trade Agreements (RTAs) and Free Trade Agreements (FTAs) as more flexible mechanisms for securing market access, attracting investment, strengthening supply chains, and addressing emerging issues such as digital trade, regulatory cooperation, and investment protection. Preferential trade agreements had existed even during the GATT era; however, their proliferation accelerated after the late 1990s. Matsushita and Lee (2011) note that only 27 FTAs had been notified under GATT by 1990, whereas this number had increased to 421 by 2008, reflecting the growing preference for bilateral and regional arrangements over prolonged multilateral negotiations. According to the WTO's Regional Trade Agreements Information System, 383 RTAs were in force as of June 2026, with an additional 79 agreements yet to be notified, underscoring the central role of FTAs in the contemporary global trading system. This proliferation of overlapping agreements, described by Jagdish Bhagwati (1995) as the "Spaghetti Bowl Effect," illustrates the increasing complexity of international trade arising from multiple tariff schedules, differing Rules of Origin, and overlapping regulatory commitments.

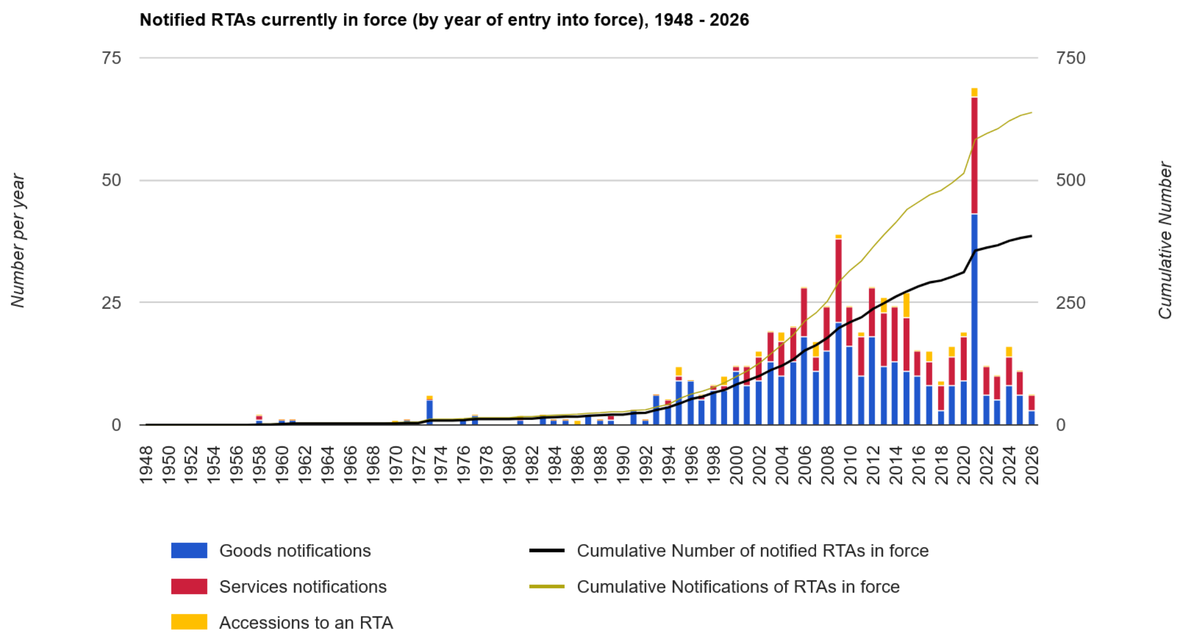

Figure 1: Notified RTAs currently in force, 1948 - 2026
Source: WTO Secretariat, August 6, 2026
Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. The cumulative lines show the number of RTAs/notifications currently in force.

The early examples of regional trade liberalization gained momentum during the 20th Century through landmark agreements such as European Free Trade Association (1960), ASEAN Free Trade Area (1992), the North American Free Trade Agreement (NAFTA) which became effective in 1994, South Asian Free Trade Area (SAFTA)[1] in 2006. These agreements reflect the gradual shift from a multilateral trading system under GATT towards a 'spaghetti bowl'[2] of regional and bilateral trade agreements. The India-UK Comprehensive Economic and Trade Agreement represents the latest generation of such agreements, extending well beyond tariff liberalization to encompass services, investment, digital trade, intellectual property, labour mobility, and regulatory cooperation.

India's Evolving Trade Policy since 1991: Liberalization, Regional Trade Agreements and Strategic Economic Partnerships

The 1991 economic reforms marked India's transition towards market liberalization and laid the foundation for a progressively evolving FTA strategy. This evolution can be understood

[1] SAPTA has now become dormant and has lost its relevance in South Asian trade integration
[2] Coined by Jagdish Bhagwati in 1995, *'spaghetti bowl'* in international trade, signifies the confusing and overlapping network of multiple bilateral and regional free trade agreements (FTAs). It highlights how crisscrossing trade rules, different tariffs, and complex requirements make global commerce harder instead of freer

through four distinct phases, each reflecting changing domestic priorities and the dynamics of the global trading system.

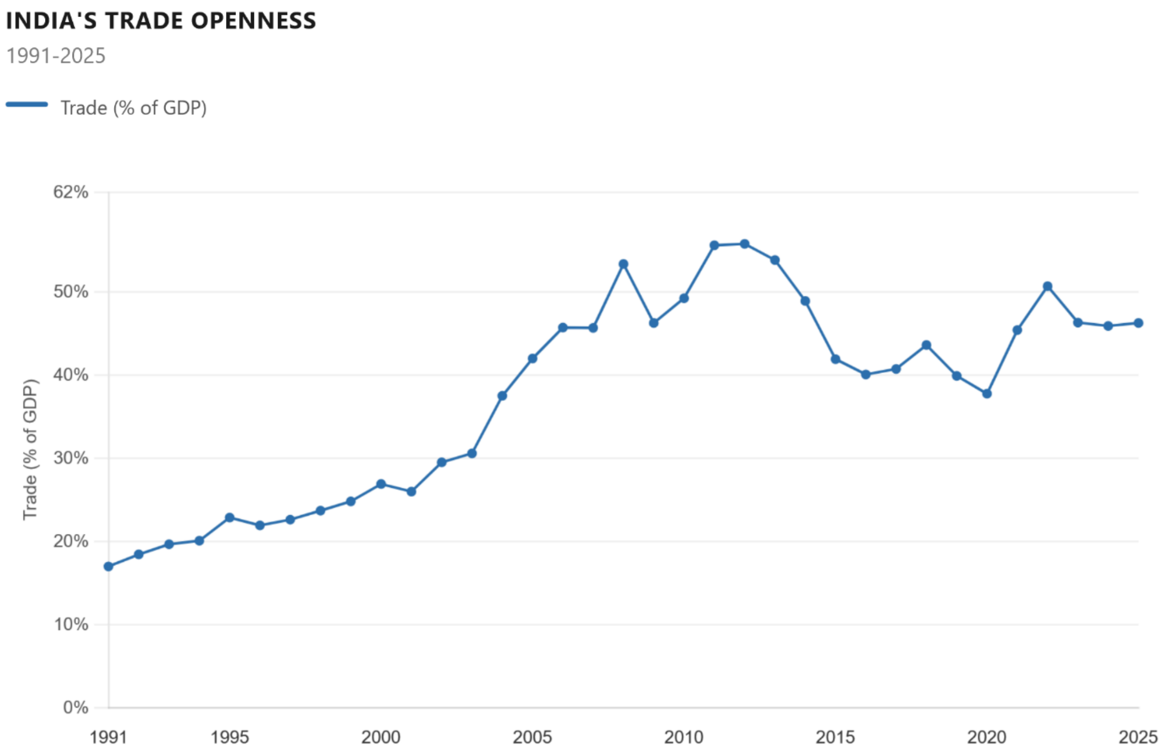

Figure 2: India’s Trade Openness, 1991-2025
Source: [World Bank, Trade (% of GDP) (NE.TRD.GNFS.ZS), World Development Indicators](#).

As illustrated in Figure 2, India's trade openness, measured as trade (exports plus imports) as a percentage of GDP, has increased substantially since the economic reforms of 1991. According to the World Bank, India's trade-to-GDP ratio was around 17 per cent in 1991 and increased to 23 per cent by 1995 following its accession to the World Trade Organization (WTO). The ratio continued to rise to approximately 27 per cent in 2000, reflecting the growing integration of the Indian economy with global markets. Trade openness accelerated during the 2000s, reaching nearly 53 per cent in 2008 and peaking at around 56 per cent in 2011, driven by rapid economic growth, expanding merchandise and services exports, and deeper integration into global value chains. Thereafter, the ratio moderated to around 40 per cent by 2016 and declined further during the COVID-19 pandemic before recovering to approximately 46 per cent in 2025 (Figure 2).

The trend depicted in Figure 2 reflects India's increasing integration with the global economy and the evolving role of trade in its growth strategy. Against this backdrop, India's trade policy since the 1991 economic reforms can be understood through four distinct phases, each reflecting changing domestic priorities and developments in the global trading system.

The first phase (1993-2005) was characterized by cautious trade liberalization, with regional cooperation taking precedence over commercial ambition. India signed the South Asian Preferential Trading Arrangement (SAPTA) in 1993 under the South Asian Association for Regional Cooperation (SAARC), marking its first regional preferential trade initiative. Recognizing the limitations of preferential tariff concessions, member countries subsequently negotiated the South Asian Free Trade Area (SAFTA) in 2004, which became operational in 2006. These agreements remained relatively narrow in scope, focusing primarily on tariff preferences in goods rather than deeper economic integration. Consequently, India's trade policy during this period reflected gradual liberalization and regional confidence-building rather than comprehensive market integration.

The second phase (2005-2015) coincided with India's Look East Policy, during which trade agreements evolved from instruments of tariff liberalization to broader tools of economic diplomacy and regional integration. India expanded its engagement through a series of Comprehensive Economic Cooperation Agreements (CECAs) and Comprehensive Economic Partnership Agreements (CEPAs), recognizing that international trade increasingly encompassed services, investment, technology, and the movement of professionals. Major agreements during this period included the India-Singapore CECA (2005), SAFTA (2006), the ASEAN-India Trade in Goods Agreement (2010), the India-Republic of Korea CEPA (2009), the India-Malaysia CECA (2011), and the India-Japan CEPA (2011). Unlike conventional FTAs, these agreements extended beyond tariff reduction to include services, investment, customs cooperation, intellectual property, standards, and professional mobility, reflecting the growing importance of the services sector in India's external economic engagement.

The third phase (2015-2021) marked a period of reassessment of India's FTA strategy. Policy assessments by NITI Aayog (2018), the Department of Commerce, EXIM Bank of India, and the Economic Survey highlighted that while FTAs had improved consumer access and export opportunities, India's merchandise trade deficits had widened with several partner countries. Concerns also emerged regarding low utilisation of FTAs, weak Rules of Origin, import surges, and the competitiveness of domestic manufacturing. Consequently, India adopted a more calibrated approach towards trade liberalisation.

These concerns culminated in India's decision to withdraw from the Regional Comprehensive Economic Partnership (RCEP) negotiations in 2019. India cited concerns over widening trade deficits, inadequate safeguards against import surges, limited gains in services, and the need to protect sensitive sectors such as agriculture and manufacturing. Rather than signalling a retreat from global trade, the decision reflected India's strategy of strengthening domestic competitiveness before entering deeper regional integration.

The fourth phase (2022 onwards) reflects India's transition towards strategic and comprehensive trade partnerships, driven by supply chain diversification, geopolitical realignments, digital commerce, and resilient economic cooperation. Unlike earlier FTAs that primarily focused on tariff liberalisation, this new generation of agreements integrates investment facilitation, services, digital trade, intellectual property, sustainable development, labour mobility, regulatory cooperation, and resilient supply chains, reflecting the changing nature of global trade.

Key agreements concluded during this phase include the India-UAE Comprehensive Economic Partnership Agreement (CEPA) (2022), the India-Australia Economic Cooperation and Trade Agreement (ECTA) (2022), the India-EFTA Trade and Economic Partnership Agreement (TEPA) (2024), and the India-United Kingdom Comprehensive Economic and Trade Agreement (CETA) (2025/26). According to the Government of India, India's FTA network has expanded significantly in recent years, strengthening economic integration with major global markets while supporting the country's ambitions to become a leading manufacturing and services hub (Press Information Bureau, 2025).

Viewed against this historical trajectory, the India-UK Comprehensive Economic and Trade Agreement (CETA) represents the culmination of more than three decades of India's evolving trade policy. It symbolises India's transition from cautious regionalism to comprehensive strategic partnerships with major global economies. The agreement reflects India's growing confidence as one of the world's fastest-growing major economies and its aspiration to integrate more deeply into global value chains while positioning itself as a trusted partner in an increasingly fragmented global trading system. India's FTA journey therefore mirrors its broader economic transformation from import substitution to liberalisation, from regional cooperation to global engagement, and from tariff-centred agreements to comprehensive economic partnerships designed for the twenty-first century.

Note: This article is part of a series examining the evolution of global, Asian, and India's trade since the establishment of the World Trade Organization (WTO) in 1995.

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