Adam Butlin May 21st, 2025

The UK deals with India, USA and the EU are symbolic

The Labour Government is on a trade deal spree. After signing a free trade agreement with India, the UK made a pact with the US to remove some of the tariffs on UK car and aerospace exports, and finally a new agreement with the EU was also signed. Significant as these deals are politically, ***Adam Butlin*** *writes, their economic return will remain rather limited, primarily because of the absence of a significant services deal.*

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In recent weeks, the UK government has announced a string of so-called 'historic' trade deals with India, the United States, and most recently, the European Union. Media outlets and political commentators have quickly hailed these developments as major breakthroughs that signal Britain's emergence as a global trading nation following its departure from the EU. However, a closer look reveals that while these deals may yield sector-specific gains and pave the way for future collaboration, their overall economic impact is likely to be incremental at best, raising questions about their substantive value beyond political symbolism and strategic signalling.

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The India trade deal

The UK-India Free Trade Agreement (FTA) has been under negotiation since 2021, following a protracted period of diplomatic engagement aimed at deepening economic ties with one of the fastest-growing economies. After more than a dozen rounds of intensive talks, both countries agreed on several tariff reductions. Notably, on India's side, previous tariffs on spirits will be halved, and tariffs on cars will fall sharply from 100 per cent to 10 per cent, albeit subject to a quota system. The UK in turn also eliminated tariffs on an array of goods including textiles, machinery, jewellery, and certain foodstuffs. Nevertheless, tariffs on key sectors such as steel and petroleum remain untouched, largely due to Indian resistance to the UK's proposed carbon border tax, reflecting broader challenges in aligning environmental policies within trade agreements.

India, currently the world's fifth-largest economy and projected to become the third largest by 2028, represents an attractive long-term partner. Modelling by the Department for Business and Trade suggests the FTA will deliver £4.8 billion in added output by 2040, equivalent to 0.1 per cent of UK GDP. By contrast, a comprehensive agreement on goods and services with the EU, is estimated to boost GDP by approximately 2.2 per cent, highlighting the profound economic significance of the UK's closest and largest trading partner.

The US trade "pact"

Meanwhile, the trade pact between the UK and US, while welcome news to some export sectors, is not a full free trade agreement. Instead, the deal reduces tariffs on UK car exports, from 27.5 per cent to 10 per cent for up to 100,000 vehicles annually, along with tariff relief for UK steel and aerospace exports. In exchange, the UK agreed to tariff reliefs on some US ethanol and reciprocal market access for beef exports.

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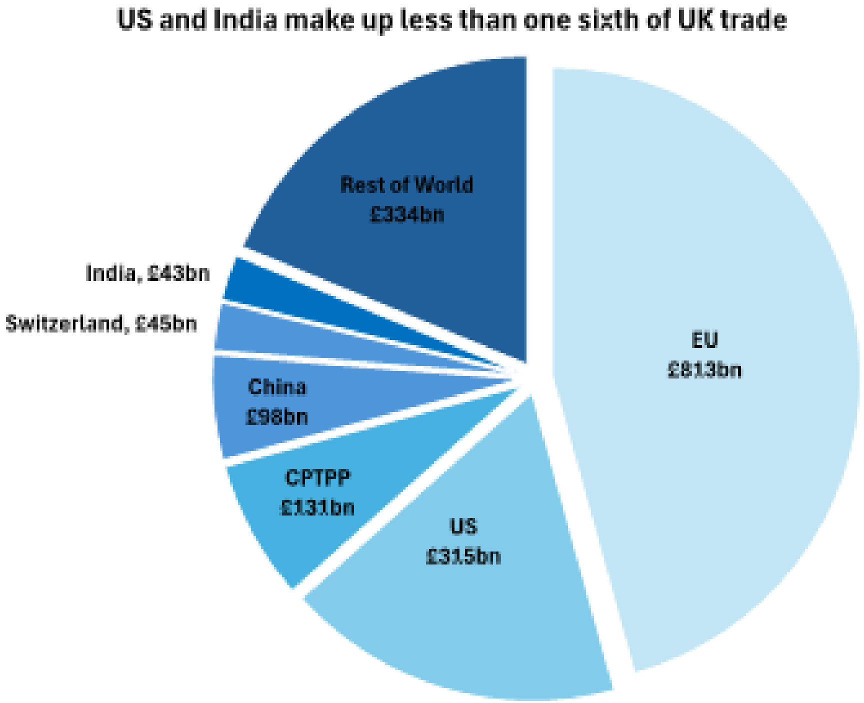
Despite these sectoral wins, a uniform 10 per cent tariff remains in place on the majority of UK exports to the US. This is significant as the UK is deeply embedded into global and US-centric supply chains meaning tariffs, even on a narrow range of goods, can significantly influence input costs and firm behaviour. For highly exposed sectors, such as advanced manufacturing or pharmaceuticals, where alternative sources may be limited or switching costs high, even modest tariffs can have disproportionate effects.



Source: ONS (2024)

The EU "common understanding"

More than five years on from Brexit, the UK continues to trade far more with the EU (45 per cent) than with either the US (12 per cent) or India (2 per cent), according to 2024 data. It is clear then that neither India nor the US will displace the fundamental importance of the EU to UK trade in the medium term. This enduring reliance is no accident. Geographic proximity facilitates lower transport costs and shorter delivery times, while decades of supply chain integration have woven British and European firms into a complex, mutually dependent network. These factors clearly highlight why the EU remains the UK's dominant economic partner despite the political impetus to diversify trading relationships in the post-Brexit era.

> *A notable omission from the above deals is any substantial progress on reducing barriers to services trade, the backbone of UK exports.*

It should be good news, then, that the UK has just signed a new deal with the EU. However, unlike the narrowly focused deals with India and the US, this latest agreement, though broad in scope, comprises largely aspirational statements of intent. The most substantial provision is an understanding that both sides will work toward a veterinary agreement to reduce non-tariff barriers on agricultural exports to the bloc, which economists at Aston University estimate could increase UK food exports by more than 20 per cent. In exchange, the UK agreed to guarantee EU access to fishing waters until 2038, a sector that represents less than one tenth of one per cent of GDP. The remaining provisions on mutual recognition of professional qualifications, defence collaboration, emissions trading schemes, and rejoining Erasmus+ and Europol are all non-binding commitments to "work towards" future agreement which are likely to involve months or even years of complex negotiations.

A bad deal for services

A notable omission from the above deals is any substantial progress on reducing barriers to services trade, the backbone of UK exports. The UK is the world's second-largest services exporter, and services account for more than two-thirds of British exports by value-added. Yet the US and EU agreements lack substantive provisions addressing labour mobility, regulatory equivalence, and mutual recognition of professional qualifications, areas vital to the UK's services sector growth. The UK-India deal may offer some limited opportunities, such as access for British legal and consultancy firms to India's public procurement market. However, systemic obstacles remain due to India's commitment to digital sovereignty, alongside a strong preference for domestic regulatory frameworks over foreign equivalence, complicates meaningful services liberalisation. Without rigorous engagement on these fronts, the UK's full potential in global services trade will remain largely unrealised.

Sourse: ONS (2024)

As they stand, these deals offer much political capital but limited economic returns.

Future challenges for UK trade

While these recent trade deals may offer short-term economic and political gains, they do little to mitigate the risks associated with a more divided global trading system. To navigate this landscape, the UK urgently needs a coherent trade strategy that reflects its comparative advantage in services, leverages existing relationships with principal trade partners like the EU, and addresses internal challenges in productivity, investment, and regional inequality.

In trade, as in diplomacy, symbolism matters. But for households and firms contending with chronic underinvestment, stagnant wages, and a cost-of-living crisis, substance matters far more. As they stand, these deals offer much political capital but limited economic returns. Their value will ultimately depend on what comes next, whether the UK government uses them as stepping stones to deep integration, or simply as props in a post-Brexit political narrative.

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