India-New Zealand FTA: Geopolitical Signal Over Trade Gains

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Agreement Highlights: Speed, Scope, and Asymmetry

After concluding Free Trade Agreements (FTAs) with Oman and the UK in 2025, India finalised negotiations for an FTA with New Zealand on December 22—nine months after talks commenced in March. This makes it one of India's fastest-concluded FTAs, reflecting strong political intent on both sides.

One element of the agreement that gained traction in India is the elimination of duties on 100% of Indian exports to New Zealand. This includes the immediate removal of tariffs on 8,284 New Zealand tariff lines. Existing New Zealand tariffs—averaging around 10% on key Indian exports such as textiles, leather goods, ceramics, and automobiles – will be eliminated, in addition to the average applied tariff rate of 2.2%. The agreement enhances India's market access across labour-intensive and manufacturing segments, including textiles, leather, footwear, several types of engineering goods, pharmaceuticals, and agricultural products. The zero-duty access is likely to particularly benefit the Indian MSMEs in export-oriented sectors.

From New Zealand's perspective, India has offered market access on 70.03% of tariff lines, covering approximately 95% of New Zealand's exports, while excluding 29.97% of tariff lines, which are protected sectors. The protected sectors include dairy and animal products, agricultural products, arms and ammunition, and gems and jewellery, among others. Of the Indian tariff lines, 30% will see immediate duty elimination; 35.60% will undergo phased tariff elimination over 3, 5, 7, and 10 years; and 4.37% will witness tariff reductions. The FTA thus serves as a good example of how such Indian redlines can be respected in trade talks, including by excluding and promoting lower tariffs in sensitive sectors.

Beyond trade in goods, New Zealand has committed to investments worth USD 20 billion in India over the next 15 years. The agreement also includes a maiden Annex on traditional medicine services, alongside a key Annex on Student Mobility and Post-Study Work Visas. Meanwhile, PM Modi and his New Zealand counterpart have welcomed the FTA as a catalyst to potentially double bilateral trade over the next five years. The legislation for FTA is expected to be introduced in the New Zealand Parliament this year.

Strategic Signalling Beyond Trade Numbers

The third FTA concluded by New Delhi this year reflects India's ongoing efforts towards trade diversification and to ease exporters' pain from US tariffs (notwithstanding the FTA's marginal effect, given minimal export volumes). When viewed alongside India's two other recently concluded FTAs, the New Zealand FTA also carries a value in geopolitical signalling to Washington, indicating India's ability to cultivate enduring economic partnerships beyond the US. This is particularly salient even as the impasse over bilateral trade agreement negotiations with the US continues.

At the same time, the agreement highlights enduring features of India's trade negotiating posture. The complete exclusion of politically sensitive sectors such as agriculture and dairy—an issue that has attracted political opposition within New Zealand- echoes long-standing complaints by partners like the US regarding India's use of non-tariff barriers (NTBs) and limited reciprocity in sensitive sectors. India's consistently staunch stance on 'protecting' these sectors is also evident in the fact that this is New Zealand's first FTA to entirely exclude the dairy sector, despite agriculture accounting for the largest share of New Zealand's exports to India and being its single largest export sector globally. This has generated mixed reactions within New Zealand's ruling coalition. The New Zealand First party and Foreign Minister Wilson have expressed strong reservations over immigration, dairy, and access to the agriculture sector, calling it "neither free nor fair". Whereas, owing to a huge market base, the opposition Labour Party and several industry groups have endorsed the agreement, despite acknowledging its limitations.

Notwithstanding its political and strategic signalling value, the FTA's utility for expanding Indian exports is likely to remain limited. While the agreement signals Delhi's intent to reduce 'over-concentration' in export markets, it is unlikely to lead to a significant increase in exports, given the minimal bilateral trade and exports of USD 1.3 billion and USD 711 million, respectively.

Sectoral reading further underscores this constraint. In agriculture and dairy—together accounting for around 17% of all product tariff lines and forming the largest sector within India's export basket to New Zealand—existing tariffs are merely 5% applied to exports worth around USD700 million. Similarly, engineering goods face a 10% tariff on exports valued at just USD68 million. These figures suggest that tariff liberalisation offers very limited benefits for Indian exporters, given New Zealand's already low applied tariffs. Moreover, over 58%of tariff lines 11 were already duty-free prior to the agreement.

Accordingly, the agreement's value for India lies not in tariff reductions but in regulatory alignment, particularly in pharmaceuticals, chemicals, auto components, and machinery. New Zealand's regulatory regime in these sectors is highly stringent, overseen by specialised agencies enforcing rigorous safety, efficacy, and quality standards. Importers require official approvals supported by extensive technical documentation on product safety and performance. Importers must also submit detailed justifications, including design registrations, to demonstrate that risk profiles remain uncompromised when products do not fully meet prescribed benchmarks. Hence, the FTA is likely to shape the composition and quality of India's exports rather than significantly expanding volumes.

Concurrently, the limited provision of 5,000 temporary employment visas underscores New Zealand's constraints as an alternative destination for Indian overseas employment, amid Delhi's diversification efforts. While the Annex (New Zealand's first) signals growing confidence in India's skilled workforce, it remains marginal relative to Indian employment in the United States and Canada. This is particularly significant amid US H-1B visa fee hikes and the 2026 expiry of Canadian work permits, which could render up to a million Indian workers undocumented.

Implementation Challenges and Long-Term Prospects

While PM Luxon expects sufficient parliamentary support to make the FTA law, New Zealand First has decided to vote against any such legislation. Nonetheless, it's likely to be ratified, since the party has only eight seats in parliament.

The FTA brings certain silver linings, including greater predictability in goods, services, mobility, and investment, and is likely to avoid a part of the usual criticism levelled at FTAs– of widening trade deficits. It is also a constructive framework for deepening engagement with one of India's most underdeveloped economic relationships in the Indo-Pacific. Moreover, criticism in New Zealand of the labour mobility provisions as "deeply unwise" owing to domestic unemployment does not appear reasonable. New Zealand faces well-documented skill shortages in several sectors, including those covered under the mobility annex, i.e., healthcare, engineering, IT, construction, and education. So, the mobility arrangement could instead potentially function as a necessary complement to New Zealand's workforce needs.

The success of the FTA would also depend on its utilisation. India has been known to exhibit a low utilisation rate of about 25% in FTAs, in contrast with developed economies, which reach 70%-80%. Herein, knowledge and actualisation of New Zealand's regulations by Indian exporters, including MSMEs, would be key. Relatedly, optimally leveraging the trade pact would warrant the sharing of responsibility between businesses and policymakers to build awareness and use dialogue mechanisms to resolve potential challenges. Moreover, consideration of direct flights and expedited visa processes by the two countries would likely help realise the objectives of the mobility Annex.

Overall, while the FTA would not significantly boost trade volumes in the short term, its value lies in the long-term. It is likely to expand India's trade footprint in the Indo-Pacific. Engaging a high-standard-based economy also serves to indicate India's ability to sign 'high-standard FTAs' to the international community.