

India-New Zealand FTA: A Structured Partnership

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The [India-New Zealand Free Trade Agreement \(FTA\)](#) comes at a time when bilateral trade between the two countries is showing clear signs of momentum yet continues to operate well below its potential. As per the factsheet issued by the Ministry of Commerce and Industry, the bilateral merchandise trade stood at USD 1.3 billion (approx.) in FY 2024-25, out of which India's exports to New Zealand contributed only around USD 711 million, despite registering a 32% year-on-year growth. Services trade followed a similar trajectory, with India's exports rising by 13% in CY 2024 to about USD 634 million, led by travel, IT, and business services. Although these numbers reflect a steadily strengthening relationship, they also highlight how modest the scale of engagement remains, particularly when compared to India's trade dynamics with countries such as the UAE and Australia, as well as its evolving trade engagement with the UK and the EU. In that sense, the current growth appears more as an early signal of opportunity rather than a reflection of a fully realized trade partnership, making the FTA a timely intervention to unlock this underleveraged corridor.

Beyond tariff liberalization, the treaty seeks to deepen economic engagement through a combination of enhanced market access, regulatory facilitation, and long-term investment linkages. Notably, a proposed USD 20 billion investment commitment over a fifteen-year horizon underscores the strategic intent to move beyond transactional trade towards sustained economic partnership.

The Agreement also aligns with India's broader approach towards bilateral trade arrangements, where recent FTAs increasingly combine tariff liberalization with supply-chain resilience, regulatory alignment, digital customs administration, and investment cooperation. The India-New Zealand FTA reflects India's continued shift towards more commercially integrated and implementation-oriented trade frameworks. In fact, the FTA is less about creating a new trade corridor and more about deepening an existing one through greater market clarity, regulatory certainty, and commercial access.

What the FTA Brings

At its core, the Agreement significantly reshapes the framework for cross-border taxation

and market access, both for goods and increasingly for services. On the goods side, the most notable feature is that New Zealand has extended duty-free access across 100% of its tariff lines for Indian exports. For Indian businesses, particularly in labor-intensive sectors such as textiles, apparel, leather, and handicrafts, this is not merely a removal of duties that had earlier gone up to 10%, but a clear pricing advantage in a market otherwise dominated by established FTA partners. Engineering goods and auto component manufacturers, including those operating out of established clusters like Pune and Chennai, similarly stand to benefit through improved access to a relatively underpenetrated market without incremental duty incidence.

India, on the other hand, has followed a more calibrated path by opening approximately 70% of its tariff lines while retaining protections for sensitive sectors such as dairy and selected agricultural products. What is also noteworthy from an indirect tax standpoint is how the Agreement defines customs duties. Unlike conventional FTAs that focus primarily on Basic Customs Duty, this treaty adopts a broader construct by factoring in levies such as Agriculture and Infrastructure Development Cess (AIDC), Social Welfare Surcharge (SWS), and other components into the base rate, thereby ensuring that tariff concessions have a more meaningful impact on overall landed costs rather than being merely cosmetic.

Beyond merchandise, the Agreement marks a distinct shift in India's FTA approach by placing considerable emphasis on services and professional mobility. New Zealand has extended market access commitments across more than 100 service sectors covering areas such as IT, engineering, healthcare, education, and business services, where India already enjoys a competitive edge. Equally significant are the mobility provisions, including structured visa pathways for skilled professionals and expanded opportunities for students and service providers, which effectively reduce non-tariff barriers that have historically constrained services trade. For Indian service exporters, this creates a more predictable and rule-based environment to scale operations, particularly in knowledge-driven sectors that align closely with New Zealand's import requirements.

Taken together, the Agreement is not just about tariff elimination; it represents a broader attempt to integrate merchandise trade efficiencies with services-led market access, thereby widening the scope of engagement.

The Role of Rules of Origin - A Critical Compliance Link

Preferential access under any FTA is ultimately contingent on one critical factor: origin eligibility. A notable feature of the India-New Zealand FTA is the structured approach adopted for the Rules of Origin (RoO) framework, which moves towards a more granular, product-specific determination of origin. This contrasts with traditional frameworks adopted in Agreements such as the India-EU context, where broader value-addition thresholds, together with relatively standardized criteria across product groups, largely determine the origin. This shift towards more prescriptive Product Specific Rules (PSRs) reduces interpretational ambiguity and enhances certainty in determining eligibility, particularly in complex supply chains where conventional value-content tests alone tend to leave room for dispute.

What further distinguishes this framework is the emphasis on traceability and documentation integrity. The Agreement mandates a standardized Certificate of Origin, along with origin declarations, requiring exporters to demonstrate not only eligibility but also a consistent audit trail supporting originating status. This becomes relevant in sectors such as engineering goods, chemicals, and textiles, where supply chains are fragmented, and sourcing is multi-jurisdictional.

The RoO provisions also appear calibrated to preclude transshipment or minimal processing from qualifying for preferential access. The use of product-specific transformation criteria, in many cases going beyond simple change-in-tariff-heading requirements, effectively ensures that substantive manufacturing activity occurs domestically.

In that sense, the framework not only operates as a compliance filter but also encourages domestic value addition, while placing greater responsibility on businesses to substantiate origin claims with precision.

Managing Sensitive Goods - The Role of Tariff Rate Quotas

The Agreement addresses sensitive products through the Tariff Rate Quota (TRQ) framework. While TRQ is a familiar feature in FTAs, the framework adopts a more calibrated and multi-layered approach. Rather than functioning as simple quantitative caps, the framework combines minimum import price conditions, seasonal access windows, and phased tariff reductions to create a tightly administered import regime.

For instance, products such as apples and kiwifruit are subject to defined import windows aligned with domestic harvesting cycles, ensuring that concessional imports do not disrupt local markets during peak production periods. The inclusion of minimum import price thresholds adds another layer of discipline, preventing under-invoicing or price suppression. This effectively blends tariff policy with valuation safeguards, an approach not typically seen in earlier FTAs.

The phased expansion of quotas and gradual tariff reduction provides domestic industries time to adjust to competitive pressures.

Trade Facilitation and Non-Tariff Barrier Rationalization - Driving Cost Efficiency Beyond Tariffs

While tariff elimination often occupies the spotlight, trade architecture derives significant value from its focus on trade facilitation and the rationalization of non-tariff barriers. The FTA introduces a modernized Customs framework anchored in time-bound clearance commitments, including cargo release within 48 hours and faster timeline (often set within 24 hours) for perishable and express consignments. This directly addresses one of the most persistent challenges in cross-border trade, viz., clearance delays at the border which lead to cost implications such as demurrage, inventory-holding costs, and blocked working capital.

At the same time, the Agreement acknowledges that tariff liberalization alone does not ensure market access. Regulatory approvals, product standards, and certification requirements often act as de facto barriers. Measures such as simplification of sanitary and phytosanitary procedures, adoption of electronic certification systems, and acceptance of internationally benchmarked standards are expected to reduce compliance-related friction. This is relevant for sectors such as pharmaceuticals, food processing, and chemicals, where duplicative inspections and fragmented approvals have historically increased both costs and timelines.

A key distinguishing feature is the integration of facilitation measures with regulatory cooperation. The emphasis on automation, single-window systems, and mutual recognition frameworks reflects an attempt to create a predictable and seamless trade environment. As a result, the benefits extend beyond tariff savings to reducing embedded transaction costs across the supply chain.

From a practitioner's standpoint, this shifts the focus from duty optimization to end-to-end cost efficiency. Businesses that align their internal processes with these mechanisms are likely to benefit through improved inventory cycles, reduced administrative burden, and greater transactional certainty.

In practical terms, the reduction in transaction costs may outweigh the direct benefit arising purely from tariff reduction in several sectors.

Sectoral Impact

The sectoral impact of the India-New Zealand FTA becomes clearer when viewed through the interplay between existing export presence, tariff incidence, and market demand in New Zealand. For instance, textiles and apparel exports from India to New Zealand, currently in the range of USD 100 million, operate in a market where overall imports exceed USD 2 billion annually. The elimination of duties of up to 10%, therefore, directly enhances price competitiveness in a segment where sourcing decisions are highly cost-driven, allowing Indian exporters to expand their share in an already import-dependent market.

A similar dynamic is visible in the engineering goods sector, where India's exports of USD 136 million (approx.) are positioned against New Zealand's significantly larger import demand exceeding USD 20 billion (approx.). Here, the benefit is less about market access and more about bridging the pricing gap created by tariffs, enabling Indian manufacturers to compete on an equal footing with established suppliers.

In the pharmaceutical segment, where India's exports are relatively modest (around USD 50-60 million in FY 2024-25), the opportunity arises not purely from tariff elimination but from regulatory facilitation and acceptance of global standards, which reduce approval timelines and compliance duplication. This is likely to support incremental export growth by improving ease of entry rather than immediate volume expansion.

The agriculture and food processing sectors present a different opportunity. With tariffs previously capped at around 5% and New Zealand being a high-value consumption market, the benefit is driven by a combination of duty removal and demand for differentiated, value-added products, particularly where India has established export capabilities.

Across sectors such as chemicals, plastics, and specialty manufacturing, where exports remain relatively small compared to global trade volumes, tariff elimination acts as an enabler for market diversification rather than immediate scale, allowing Indian exporters to build a presence in a stable but competitive market.

Alongside these merchandise-driven opportunities, the FTA also begins to reshape the trajectory of services trade, albeit in a less immediately visible manner. India's service exports to New Zealand, which are already concentrated in IT, business services, and travel, have historically operated within a fragmented and relatively restrictive regulatory environment. The Agreement's commitments across a wide range of service sectors, coupled with provisions that facilitate the movement of skilled professionals and recognition of specialized services, gradually address these structural constraints. The resulting impact is more evolutionary than immediate: it provides Indian service providers with a clearer, more predictable framework to expand operations, particularly in knowledge-intensive segments where New Zealand's demand aligns with India's capabilities.

Taken together, the data (factsheet) suggests that the FTA does not uniformly amplify all sectors but instead creates differentiated advantages based on existing export maturity and market dynamics. While merchandise sectors benefit primarily through tariff elimination and resulting price competitiveness, the services sector stands to gain through improved market access and reduced regulatory friction. The real gains, therefore, will accrue to businesses that are able to leverage both dimensions optimizing duty benefits on the goods side while simultaneously building scale in services segments where India already demonstrates a strong competitive edge.

Conclusion

From an indirect tax and supply-chain perspective, the India-New Zealand FTA reflects a broader transformation in the structure of modern trade agreements. The focus now extends beyond tariff reduction alone; the policymakers and trade negotiators place equal importance on regulatory predictability, Customs efficiency, documentation integrity, and supply-chain transparency.

Viewed more broadly, the Agreement represents another step in India's transition towards a facilitation-led trade policy where competitiveness is driven not only by lower tariffs, but also by reduced transaction costs, faster market access, and greater certainty across the trade ecosystem.

From a business perspective, the real opportunity lies not merely in availing lower duties, but in integrating operational, sourcing, and compliance functions with the framework of the Agreement. Today, preferential access increasingly depends on demonstrable compliance, traceability, and process discipline. Given this, businesses should proactively review HS classifications, evaluate eligibility under the RoO framework, strengthen supply-chain documentation, identify sector-specific export opportunities, and reassess landed-cost models to maximize the commercial advantages offered under the Agreement.

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