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India and European Union Economic Relations: Restructuring Growth Trajectories

Swati Mehta and Charan Singh

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Swati Mehta[1] and Charan Singh[2]

I. Introduction

India-European Union (EU) Free Trade Agreement (FTA) negotiations have resumed significance at a time when the world economic order is undergoing a profound transformation. The forthcoming participation of the President of European Commission, Ursula von der Leyen, and the President of European Council, Antonio Costa, in India's Republic Day celebrations on January 26, 2026 signals to deepening of diplomatic ties, along with growing strategic and economic partnership, particularly in relation to the ongoing FTA negotiations. The high-level visit coincides with the 16th India-EU Summit scheduled for January 27, 2026, underscoring the growing momentum in bilateral relations.

The European Union (EU) is a supranational economic and political organization representing sovereign European member states. With a single currency, the euro, and a common Schengen visa regime, the EU represents a distinctive model of collective economic power built on cooperation and shared decision-making. It is a representative of 27 European countries; with headquarter in Brussels, Belgium. United Kingdom exited the EU in 2020 following Brexit; while other two major economies, Switzerland and Norway, are not formal members of EU. The EU operates through a multi-layered institutional framework that enable it to function as a single market for goods, services, capital and labour, while allowing members states to retain autonomy over domestic policy domains. Therefore, India-EU FTA negotiations will open the doors for India to 27 European countries simultaneously.

Historical Trend

The proposed FTA holds substantial importance for both India and the EU. India, one of the fastest growing major economies, offers a vast market and expanding production possibilities. In contrast, the EU represents majority of European high-income economies with advanced technological and production capability. While several European countries are confronting ageing population and rising labour cost, necessitating them to restructure their value-chains beyond domestic markets toward trusted partner countries. India, on the other hand, is in the

[1] Associate Professor, Punjab School of Economics, GNDU, Amritsar.
[2] Chief Executive, EGROW Foundation

process of strengthening its manufacturing and production capabilities, where closer integration with advanced European economies could play a pivotal role.

India and the EU initiated the FTA negotiations in 2007, which were subsequently stalled between 2013 and 2021. However, the Covid-19 pandemic exposed several vulnerabilities in global supply chains, particularly Europe's over-reliance on China. In response, the EU increasingly wanted to pursue a 'China plus X strategy' to diversify supply chain. Henceforth, the India-EU FTA negotiations were resumed in June 2022. Over the past three years, multiple rounds of talks have taken place across various levels, covering key areas such as trade in goods and services, investment, rules of origin, intellectual property rights, and labour mobility.

Recent high-level diplomatic engagements further reflect the importance of India-EU economic relations for both sides. On January 8 and 9, 2026, India's Union Minister of Commerce and Industry, Piysuh Goyal, visited Brussels to accelerate the negotiation process. This was followed by the visit of German Chancellor Friedrich Merz to India on January 12, 2026, along with the chief executives officers of 25 major German companies, aimed at strengthening the India-Germany Strategic Partnership. The aim is to intensifying cooperation in defence, science, innovation, research, green technologies, sustainable development and people-to-people interaction.

Geopolitical considerations and the FTA

These initiatives signal a concerted effort to strengthen cooperation amidst heightened global economic, political and social turbulence in different parts of the world. The year 2025 concluded amidst the ongoing Russia-Ukraine War; China's military exercise around Taiwan; political unrest in Nepal, Bangladesh and Iran; volatility in regions such as Israel, Gaza and Venezuela. President Trump's tariffs threats supporting protectionist and expansionary trade policy of the United State of America, has generated significant political and economic challenges for countries across continents. Such geopolitical and social uncertainties are compelling countries to seek reliable and trusted partners to ensure long-run mutual growth and sustainability. Moreover, the world economies are increasingly facing the adverse impacts of climate change, including heat waves, floods, cyclones, storms, melting glaciers and rising sea level, reinforcing transition towards green technologies.

In this broader context, strengthening India-EU economic relations assumes critical geopolitical and strategic importance, as both sides seek resilient growth trajectories, diversified value chains, and mutual cooperation for sustainable development objective. Accordingly, we highlight the distinctive economic and structural characteristics of India and the EU in Section II. Section III examines the potential gains and challenges that may arise for both partners. Section IV concludes the analysis by outlining key policy implications.

II. Distinctive characteristics of India and the European Union.

In this section, a brief overview is as follows.

- **Economic size and Growth Trajectory:** India has emerged as the world's fourth largest economy, with a GDP of approximately $4.18 trillion, and is now ranked next to Germany, the largest economy within the EU. According to the estimate released by the International Monetary Fund on January 2026, the EU accounts for 13.8 percent of global GDP (PPP), while India's share stands at 8.7 percent. Notably, EU's share of global GDP has declined steadily from 24.5 percent in 1980 to 21.6 percent in 2000, and 17.6 percent in 2010 and further to 15.2 in 2020, reflecting relatively slower economic growth. The declining trend has raised concerns within the EU regarding long-term competitiveness and growth sustainability. In contrast, India has demonstrated robust economic growth over the past few years. As per the latest projections for 2026, EU's real GDP growth is estimated at 1.8 percent per annum, whereas India continues to remain the fastest growing major economy, with growth exceeding 6.5 percent. The Ministry of Statistics and Programme Implementation (MoSPI), Government of India has estimated real GDP growth of 7.4 percent in FY 2025-26 in its first advanced estimates released on January 7, 2026. Similarly, IMF forecasts that the Indian economy will grow by 7.3 percent during fiscal year 2026.
- **Demographic Dynamics:** India with a population of nearly 1.4 billion, highest in the world, represents a vast and expanding consumer base and labour market, whereas the EU's population is only 450 million. Countries like Germany, Italy, Spain, France, and much of Central Europe are experiencing ageing population and labour shortages. The India-EU FTA is expected to provide not only huge market to the EU companies, but it can also become a trusted production hub.
- **Innovation and Technological capabilities:** In the race for economic supremacy, innovative acumen takes the front seat. National differences in defence technologies, space science, digitalization and manufacturing, technological capability and knowledge generation have been playing a prominent role. According to Global Innovation Index (GII) 2025, India ranked 38^{th}, while several EU countries occupy top ranks, reflecting structural differences in innovation systems. Sweden (rank 2), Finland (rank 7), Netherlands (rank 8) and Germany (rank 11), lead globally due to strong research intensity, dense university-

industry linkages, and high R&D investment. Sweden records the highest researcher density (10,413 per million population) and invests 3.6 percent of GDP in R&D, making it one of the world's strongest science-based innovation systems. Finland combines high research intensity with 8,354 researchers per million populations and 3.1 percent investment in R&D, with strong ICT infrastructure, logistics and strong financial institutions. The Netherlands, with 6,583 researchers per million population and 2.2 percent of GDP invested in R&D, performs strongly in innovation linkages, knowledge-intensive employment, and cluster development. Germany, with 5,997 researchers per million population and 3.1 percent of GDP devoted to R&D, holds a distinguished position in manufacturing with highest corporate R&D expenditure, advanced logistic, and globally competitive high-tech manufacturing base. In contrast, India's innovation system is characterized by lower R&D intensity (0.6 percent of GDP) and a smaller researcher base (259 per million populations), but it performance in exports of ICT services, service-led economy and digital innovation demonstrates exceptional performance. India records high level of gross capital formation, reflecting a scale driven and cost efficient innovation model. This asymmetry between India and EU underscore the potential for technology transfer, learning and capability building through deeper India-EU production linkages.

- **Gaining from Industrial Revolutions:** Europe has remained at the global technological frontier since the First Industrial Revolution, led by United Kingdom in textiles and steam power. The Second Industrial Revolution marked a shift towards chemicals, electricity and heavy engineering, during which Germany emerged as the leading force. Subsequently, Germany consolidated its position in advanced technologies during the Third Industrial Revolution, particularly in electronics, automation, information technology and semiconductors, and continues to be a key player in artificial intelligence (AI), robotics, biotechnology in the Fourth Industrial Revolution. With one of the largest pools of AI professionals, India is increasingly strengthening its position in global AI landscape through initiatives such as the flagship IndiaAI Mission. According to NASSCOM, India possesses the world's largest digitally skilled talent pool and has the capacity to develop 8-10 million professionals in AI-related services by 2030. The Stanford University's Global AI Vibrancy Tool (2025) places India among the top three countries in terms of AI talent concentration growth, which has increased more than threefold since 2016. Further reinforcing its global role, India is set to host the first Global AI summit in the Global South in February 2026, with a focus on making AI useful for people, the planet, and progress. In contrast, IMF's AI Preparedness Index measures economy-wide structural readiness and governance, rather than ecosystem vibrancy as done by Stanford. The IMF index reveals that the United States leads with a score of 0.77, followed by the EU with the score of 0.66. India, however exhibits a comparatively lower level of preparedness, with an index value of 0.49. Taken together, these two indices, despite focusing on different dimensions highlight that while India has achieved rapid growth in AI talent, face challenges related to the rural-urban digital divide and the limited adoption of AI in sectors such as agriculture an local governance.

- **Trade Relations:** Trade between India and EU have intensified significantly in the recent years. Since 2020-21, bilateral trade has expanded from $120.34 billion to $193.18 billion in 2024-25, increasing at an average annual growth rate of 12 percent. From 2021-22 onward, India has constantly recorded a modest surplus with the EU. In 2024-25, this surplus stood at $3.70 billion, with India's exports to the EU amounting to $98.44 billion, while imports from the EU were valued at $94.74 billion. India's major exports to the EU include petroleum products, organic chemicals, pharmaceuticals, iron and steel, and textiles. On the other hand, imports of India from the EU include machinery, mechanical appliances, aircrafts, electrical machinery, medical and surgical instruments, iron, steel, gold and pearls. In addition to merchandise trade, India has maintained a surplus in services trade with the EU over the past decade.
- **Investment Linkages:** The EU also remains one of the largest sources of foreign direct investment (FDI) in India. Notable investments include Airbus's partnership with Tata Group for the manufacture of helicopters under the 'Make in India' initiative. German automobile major, BMW, has established a manufacturing plant in Chennai and a warehouse in Pune for parts and equipment alongside investments in financial services such as business finance, commercial finance and insurance. Other prominent EU firms operating in India include the Belgian heavy-lifting and engineered transport system with super versatile cranes, Sarens; German software company SAP, French tyre manufacturing Michelin and Bulgarian defence manufacturer Kintex. On the other hand, some major Indian companies are doing operations in the EU, like Tata Group, Mahindra and Mahindra, Apollo Tyres, Infosys and many more. With FTA, both FDI and Outward FDI from India is expected to increase that would lead to more production, and employment opportunities.

III. Transformational Potential of India - EU FTA

India and the EU are working towards a free trade agreement aimed at fostering mutual growth and long-tem cooperation. Key areas of collaboration include advanced manufacturing, green technologies, circular economy, semi-conductors, labour mobility, digitization, and financial institutions etc., which constitute core priorities for both sides. Enhanced market access through reduction of tariffs and non-tariff barriers are expected to expand bilateral trade flows between India and the EU members.

What India can gain?

The proposed India-EU FTA can generate substantial gains for India by strengthening market access, investment flows, technological capabilities, skill formation and resilient industrial clusters. Over the past few years, India has recorded a surplus in both goods and services trade with the EU, and the FTA would further enhance market access for the Indian firms, particularly micro, small and medium enterprises (MSMEs) by enabling deeper integration and upgrading within global value chains, especially in sectors like electronics, pharmaceuticals, engineering goods, textiles and services, thereby advancing India's objective of positioning itself as the global manufacturing hub under the 'Make in India'. Increased inward and outward foreign direct investment between India and the EU can facilitate cooperative production networks, leading to higher employment and income generation, while supply-chain diversification under the EU's 'China plus X' strategy can expand opportunities for a large number of Indian MSMEs to participate in global value chains (GVCs). Beyond trade and investment, the FTA can play a critical role in the technological and organizational learning, as innovation extends beyond product development to include process, organizational and marketing innovations. Adoption of advanced production technologies, improved organizational mechanisms, upgraded logistics, and better marketing practices can enhance productivity and competitiveness. Joint ventures and inter-firm linkages with EU-led value chains can facilitate learning of advanced manufacturing processes, quality standards and best managerial practices. In addition, skill formation aligned with rapidly changing technologies remains a key determinant of long-run growth, the FTA can enable Indian firms and institutions to better anticipate contemporary and future skill requirements, thereby supporting workforce upskilling. Exposure to the advanced EU production systems, through mobility of labour and collaborations can further strengthen human capital formation. Moreover, as the EU houses some of the world's most advanced manufacturing clusters such as German automotive and advanced mechanical clusters, Italian industrial districts, and strong university-industry linkages across several EU countries, offering valuable insights for Indian existent manufacturing clusters. Emulating such cluster-based production system can support technological upgrading and industrial deepening within Indian manufacturing system.

Concerns for India:

Despite the potential gains from the India-EU FTA, several concerns warrant careful policy attention, particularly with respect MSMEs, rural livelihoods, and employment adjustments. India's manufacturing sector is dominated by MSMEs, which constitute the backbone of industrial output and employment. Increased competition from technologically advanced EU firms may adversely affect MSMEs, particularly those constrained by limited access to finance, and technological capabilities, unless adequate protective and support mechanism are institutionalized. In addition, the FTA may expose India's rural economy to fierce competition from subsidized and high-quality agricultural imports from the EU countries, raising concerns over the farmer's livelihood, rural crafts, and small-scale agricultural activities, all of which remain critical from a socio-economic and political perspective. Furthermore, while technological upgrading associated with the FTA can enhance productivity and long-term competitiveness, it may also lead to short-term jobs displacements. The inflow of advanced technology such as robotics and artificial intelligence necessitates complementary policies for reskilling and labour market adjustment to ensure inclusive development with gainful employment opportunities.

What the EU can gain?

The proposed India-EU FTA offers substantial benefits to the EU by providing access to one of the world's largest and fastest growing markers, while simultaneously strengthening production reliance and innovation capacity. India's rapidly expanding economy, large population, and rising middle class generate sustained demand across manufacturing and services sector, with accelerated urbanization and rising income levels further strengthening consumption demand. Thereby making India an increasingly attractive market for EU firms. Beyond market access, India's ongoing efforts to strengthen its manufacturing base in sectors such as automobiles, electronics, pharmaceutics; defence supported by Production Linked Incentive (PLI) schemes and the Viksit Bharat initiative. For the automotive sector, EU has identified India as a potential source of rare earth material. These developments make India a suitable and trusted destination for the EU firms to restructure value-chains into India and diversify value chains under the China +X strategy, while benefiting from India's expanding production system. In addition, India's large and youthful labour force provides a significant demographic advantage at a time when global competition in high value-added products is intensifying and production cost is rising in traditional low-cost production centres, such as China and other neighboring economies. India's demographic dividend can help mitigate ageing-related labour shortage across EU economies. Moreover, India's substantial pool of skilled professionals, entrepreneurs, and research practitioners, together with its growing stock of scientific and technical knowledge, creates opportunities for EU firms to undertake cost-effective research and development (R&D), enabling faster innovation cycles through collaborations with Indian firms and research institutions without compromising quality.

Concerns for the EU

Despite the potential gains from the India-EU FTA, the EU faces several important concerns that need to be carefully managed. A key issue relates to the Carbon Border Adjustment Mechanism (CBAM), through which EU seeks to impose carbon-linked charges on imports of emission-intensive products such as steel, aluminum and cement. Balancing climate objectives with trade competitiveness remains a critical challenge. Another major concern involves the strengthening of intellectual property rights (IPR), including enhanced protection of geographical indicators for products such as wines, spirits and cheese. While India also maintains GI protection for agriculture products and handicrafts like Darjeeling tea and Basmati Rice, alignment of IPR regimes is essential to safeguard patents, geographical indicators, and proprietary technologies. The EU countries have inept reservations regarding labour mobility, due to differentiated qualifications and specializations. Managing labour mobility while addressing domestic labour market sensitivities is also a consideration. The EU firms also have some concerns over technology transfer risks, as stronger IPR provisions are viewed as necessary to protect critical and strategic technologies. The challenge lies in safeguarding sensitive technologies while simultaneously promoting deeper technological cooperation and joint research initiatives and long-term innovation and production partnerships.

IV. Conclusion and Policy Implication

The proposed India-EU FTA represents a strategically significant initiative aimed at fostering sustainable and inclusive growth in an increasingly complex and dynamic world economic order. Over the years, the formation of regional groupings and free trade agreements has been found to yield transformational outcomes, such as evident in arrangements such ASEAN, NAFTA and the European Union itself. More recently, India has entered into FTAs with partners such as United Arab Emirates (UAE), Qatar and Australia, for increasing cooperation in petroleum products, energy security, services, critical minerals, and market access. Meanwhile the EU has pursued FTA with South Korea and entered into Japan-EU Economic Partnership Agreement, reflecting its broader strategy of strengthening inter-regional economic integration. These developments reflect a conscious shift toward building resilient, mutually beneficial strategic alliances rather than narrow defined trade arrangements. In this context, India-EU FTA holds the potential to unlock substantial gains for both sides. For India, it is expected to provide an enhanced access to advanced European markets, technology transfers, investment inflows, and deeper integration into diverse high-value global value chains; while for the EU, India represents a trusted democratic partner in Asia with a vast and growing market, a large and skilled labour force, and expanding production capabilities. Moreover, the FTA can serve as a foundation for long-term policy for sustainable and inclusive growth in both economies. However, for the agreement to deliver inclusive and sustainable outcomes, trade liberalization must be complemented by supportive domestic policy reforms. India must strengthen MSME competitiveness, invest in skills and upgrade regulatory capacity and institutional capacity, while the EU needs to adopt a more flexible approach towards labour mobility, technology collaboration, and transitional safeguards to ensure balanced adjustments.

Strategic collaborations in co-developing green technologies, electric vehicles, defence manufacturing, space technologies, semiconductors, and next generation mobility and energy solutions can accelerate industrial upgrading, economic development along with supporting climate commitments on both sides. Similarly, this partnership is expected to open new avenues across multiple sectors, including agriculture, healthcare and across regions such as rural areas, facilitated by advancements in artificial intelligence and information and communication technologies. Enhanced mutual linkages between firms and organisations in India and the EU are likely to increase productivity, improve resource efficiency, and transform the lives and livelihoods of millions in rural India, while also offering scalable solutions relevant to European sustainability goals. Such cooperation also carries broader geopolitical and developmental significance by embedding the interest and capabilities of the Global South within advanced industrial partnerships. Therefore, India-EU FTA can serve as an important instrument for strengthening India’s integration into the global value chains through strategic collaboration with the EU, reinforcing the broader framework of North-South cooperation. This partnership has the potential to contribute to a more balanced, innovation-driven and equitable economic order, which is described as ‘mother of all deals’ by Ursula von der Leyen at the World Economic Forum (WEF) in Davos in January 20, 2026.