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India–EU Free Trade Agreement: Policy Design, Trade Architecture and Implications

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1. Global Disruption and the Context of the India–EU FTA

The impending India–European Union Free Trade Agreement is one of the most comprehensive trade agreements India has concluded to date. The scale of the agreement lends credibility to the description. It brings together two economic blocs representing nearly two billion people and close to a quarter of global GDP. More significantly, it comes at a moment when geopolitical tensions, supply chain fragmentation, and rising protectionism are reshaping global trade.

The agreement is not merely a commercial arrangement. It reflects a strategic recalibration by both India and the European Union. For Europe, it is part of a broader effort to diversify supply chains and reduce excessive dependence on China. For India, it signals a shift towards deeper engagement with rule-based global trade while positioning itself as a reliable manufacturing and economic partner.

As European Commission President Ursula von der Leyen recently remarked, the India–EU partnership is one of the most consequential economic relationships of this decade. That assessment captures both the opportunity and the complexity of the deal.

The timing of the India–EU Free Trade Agreement is not incidental. The sequencing of the negotiations reflects India's improved macroeconomic position over the past decade, which enabled engagement with the European Union from a position of greater bargaining capacity than in earlier phases of trade engagement. Stronger growth, a larger domestic market, and enhanced manufacturing capabilities enabled India to negotiate more calibrated, reciprocal commitments rather than front-loaded concessions. The evolution of India–EU merchandise trade over the past decade provides essential context for understanding the timing and objectives of the agreement.

Figure 1 below illustrates the shift in India–EU trade from near balance in the early 2010s to a sustained surplus in the post-pandemic period, underscoring why the agreement is framed

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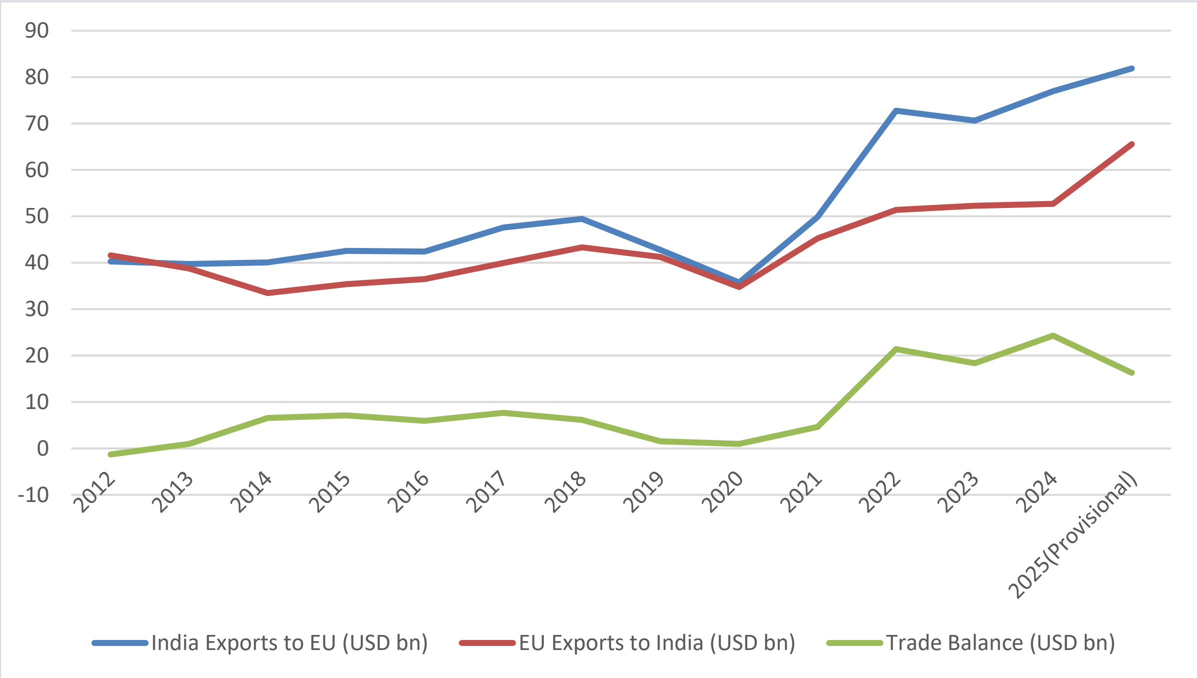
around consolidating export competitiveness rather than correcting trade imbalances. Trade in goods contracted by 16% in 2020 due to global supply chain disruptions. Exports jumped to a record €67.4 billion in 2022, primarily driven by refined petroleum, chemicals, and pharmaceuticals. Total bilateral merchandise trade reached $136.54 billion (~€116.8 bn) in 2024–25, making the EU India's largest goods trading partner. The conclusion of the FTA on January 27, 2026, is expected to increase these export figures by securing duty-free access for over 99% of Indian exports.

FIGURE 1: India–EU Bilateral Trade Trends (2012–2025)



Note: 2024–2025 figures are preliminary estimates converted from USD using annual average exchange rates. Figures for 2012-2023 reflect calendar year data; 2024-2025 reflect financial year (FY) data. This figure represents trade in goods only and excludes trade in services, which grew from €19 billion to €37 billion for India between 2019 and 2024. Source: Eurostat (COMEXT) and Ministry of Commerce & Industry (India) via Press Information Bureau, 2012–2026.

This policy paper focuses primarily on merchandise trade and tariff-related provisions, acknowledging that services, investment, and regulatory cooperation will shape longer-term outcomes.

2. Institutional and Tariff Architecture of the Agreement

At its core, the India–EU FTA is built around large-scale tariff liberalization. Nearly 97 per cent of European tariff lines entering India will be eliminated or significantly reduced. These include high-value industrial goods such as machinery, automobiles, chemicals, medical equipment, and precision instruments.

In return, India will receive preferential access for almost 99.5 per cent of its exports to the European Union. Key beneficiary sectors include textiles and apparel, leather and footwear, marine products, engineering goods, electronics, and gems and jewellery. According to official estimates, Indian exporters could save more than €4 billion annually in duties once the agreement is fully operational. The practical implications of tariff liberalisation are most visible in labour- and export-intensive sectors, as illustrated below.

Table 1: Selected Indian Export Sectors Benefiting from Tariff Elimination

Sector	**Pre-FTA Tariff (EU)**	**Post-FTA**
Marine products	~26%	Zero
Footwear	~17%	Zero
Chemicals	~12–13%	Zero
Apparel & textiles	~12%	Zero
Gems & jewellery	~4%	Zero

This level of market access is unprecedented in India's trade history and exceeds the concessions offered under earlier agreements with ASEAN, Japan, or South Korea. It also signals India's willingness to align selectively with advanced trade regimes while retaining strategic autonomy in key sectors. The structural shift introduced by the agreement is best understood through the following comparison.

Table 2: Key Structural Changes Under the India–EU FTA

Aspect	**Before FTA**	**After FTA**
Tariff access	Limited, sector-specific	~97% tariff lines liberalised
Export competitiveness	Lower vs ASEAN peers	Parity with Vietnam & Bangladesh
Market certainty	Unpredictable	Rules-based access
EU market access	Partial	Nearly full coverage
Regulatory alignment	Limited	High (ESG, standards, IPR)
Trade risk	High exposure	Diversified risk

3. Trade Corridors and Supply Chain Reconfiguration

While the agreement is primarily bilateral in design, its implications extend well beyond India and the European Union. One of the most significant—though indirect—effects of the FTA could be on emerging trade corridors linking India, the Middle East and Europe, particularly the India–Middle East–Europe Economic Corridor (IMEC).

The FTA does not explicitly operationalise IMEC. However, by lowering trade frictions and improving regulatory predictability, it alters commercial incentives, making such corridors more viable. As firms re-optimise supply chains in response to reduced tariff and non-tariff barriers, logistics routes that combine reliability, cost efficiency, and geopolitical stability become increasingly attractive.

The strategic significance of the corridor was formalized during the 18th G20 Summit, where the G20 New Delhi Leaders' Declaration (2023) emphasized the role of such connectivity projects in unlocking trade for inclusive growth. This was further operationalized through a specific Memorandum of Understanding (2023), which outlines a multimodal transit network designed to reduce transit times between India and Europe by up to 40%.

In this context, established logistics hubs in the UAE and Saudi Arabia—already positioned as transshipment and value-addition nodes—stand to benefit as "switchyards" between Asian manufacturing centres and European markets. Improved corridor usage, combined with growing infrastructure investment in ports and multimodal logistics, could significantly enhance trade flows for Indian exporters.

IMEC itself is still an evolving framework, but the India–EU FTA acts as a demand-side catalyst. At a time when disruptions in the Red Sea and geopolitical risks along traditional shipping routes have increased uncertainty, alternative corridors linking India, the Gulf, and Europe have become strategically relevant. If corridor reliability improves, Indian exporters—particularly in engineering goods, textiles, chemicals, and food processing—are likely to gain from reduced transit risk and enhanced market access.

4. Distribution of Gains and Asymmetries

The question of asymmetry lies at the heart of the policy debate surrounding the agreement.

The European Union gains relatively quickly in commercial terms. It secures access to one of the world's fastest-growing consumer markets and strengthens its presence in high-value segments such as automobiles, medical devices, chemicals, and professional services. It also successfully embeds strong provisions on intellectual property, sustainability standards, and regulatory cooperation.

India's gains, by contrast, are more structural and long-term. The agreement improves export competitiveness, particularly in labour-intensive sectors, and helps Indian firms integrate more deeply into global value chains. It also offers an opportunity to move up the manufacturing ladder, provided the domestic industry can efficiently absorb technology and scale.

Several trade analysts have observed in recent commentary that while Europe's benefits are immediate and measurable, India's advantages depend heavily on domestic preparedness. Market access alone will not guarantee export growth unless supported by infrastructure, logistics reform, and regulatory efficiency. The distribution of gains and risks across stakeholders further highlights the asymmetry inherent in the agreement.

Table 3: Who Gains What – Strategic Impact Matrix

Stakeholder	**Key Gains**	**Key Risks**
India	Export growth, market access, value chains	Compliance burden, MSME stress
EU	Market access, standards influence	Limited agricultural access
Indian MSMEs	New markets	High compliance cost
Large exporters	Scale and margin gains	Competition pressure
Consumers	Lower prices	Import dependence

5. Trade Diversification in an Era of Tariff Uncertainty

The India–EU FTA also assumes importance in the context of rising protectionism elsewhere, particularly in the United States. Escalating tariffs, industrial subsidies, and trade-related security measures have increased uncertainty for exporters worldwide.

Against this backdrop, the agreement offers both India and the EU an avenue for trade diversification. For India, it provides a partial hedge against tariff volatility in the US market while strengthening access to a relatively stable and rules-based economic bloc. For the EU, it represents an opportunity to reduce excessive dependence on Chinese supply chains without sacrificing market scale.

In this sense, the agreement serves not merely as a trade liberalisation instrument but as a strategic response to an increasingly fragmented global trading system. Its value lies as much in predictability as in preferential access.

6. Tariff Liberalisation and Policy Constraints

A key concern surrounding the agreement is the reduction of India's policy space. Tariffs have traditionally been used as instruments of industrial protection and development. The FTA significantly limits this flexibility, particularly in sectors such as automobiles, chemicals, and medical devices.

At the same time, the agreement increases India's exposure to non-tariff barriers. The European Union's emphasis on environmental standards, carbon accounting, and labour compliance effectively extends regulatory oversight beyond its borders. The Carbon Border Adjustment Mechanism, in particular, has raised concerns among Indian exporters about rising compliance costs.

In sensitive sectors such as automobiles and electric vehicles, tariff concessions are constrained by price thresholds and quantitative limits. This design allows limited market entry for European manufacturers while preserving the bulk of India’s mass-market segment, indicating an intent to enable market testing rather than large-scale import penetration.

Analysts argue that while such measures are framed as climate action, they also serve as sophisticated trade filters. For India, navigating this new regulatory landscape will require substantial institutional capacity and sustained policy coordination. The India–EU agreement must also be situated within a broader reconfiguration of global trade strategies, as outlined below.

Table 4: Diverging Trade Strategies in a Fragmenting Global Economy

Actor	Trade Approach	Strategic Objective
United States	Tariff-led protectionism	Reshore industry, protect domestic manufacturing
European Union	Rules-based trade & regulatory standards	Secure supply chains, export norms globally
India	Strategic openness & diversification	Integrate into global value chains, reduce dependence

7. Carbon Border Adjustment Mechanism: Constraint or Correction?

A recurring concern in discussions on the India–EU FTA is the European Union’s Carbon Border Adjustment Mechanism (CBAM). While CBAM is framed as a climate-alignment tool, its trade implications are substantial, particularly for carbon-intensive exports.

In practice, CBAM may dilute some of the tariff advantages gained under the FTA, especially for sectors such as steel, aluminum, cement, and energy-intensive manufacturing. A degree of dampening effect—potentially in the range of 25–30 per cent—cannot be ruled out once the mechanism is fully operational.

However, it is equally important to view CBAM in a broader geopolitical context. Given current energy realities, even European economies have had to make pragmatic compromises, as seen during the 2022 energy disruptions. This suggests that implementation is likely to remain flexible rather than punitive.

Moreover, the strategic logic underpinning the FTA and the broader geopolitical environment may, over time, encourage a more accommodative approach. While CBAM introduces friction, it does not negate the overall gains from the agreement. Instead, it reinforces the need for India to accelerate its green transition and improve carbon efficiency in export-oriented sectors.

8. Trade, Geopolitics, and Strategic Instruments

The India–EU FTA must also be viewed through the lens of geopolitical realignment. Global trade is no longer insulated from strategic competition. Tariffs, export controls, and regulatory standards are increasingly used as tools of influence.

In this context, the agreement offers India a measure of stability. Anchoring trade relations within a rules-based framework reduces exposure to unilateral trade actions and enhances predictability. It also strengthens India's position as a credible alternative in global supply chains seeking to diversify away from China.

At the same time, deeper integration with the European market means greater alignment with European regulatory norms, limiting India's room for manoeuvre in specific policy areas. The trade-off between stability and autonomy is therefore unavoidable.

9. Assessing India’s Evolving Trade Strategy

The India–EU agreement reflects a broader shift in India's trade philosophy. After years of cautious protectionism, New Delhi is now pursuing selective openness through high-quality trade agreements. Unlike earlier FTAs, this agreement is closely aligned with India's manufacturing, export, and geopolitical objectives. Recent trade agreements suggest a deliberate preference for partnerships with high-income, rule-based economies, reflecting a shift away from broad, indiscriminate liberalisation toward selective and strategic openness.

However, significant challenges remain. Small and medium enterprises may struggle with compliance costs. Infrastructure bottlenecks continue to raise logistics expenses. Export financing mechanisms remain underdeveloped. Without addressing these constraints, the agreement's benefits could remain concentrated among a limited number of large firms. Improved market access alone is unlikely to yield results unless accompanied by upgrades in quality standards, regulatory compliance, and manufacturing capabilities within the domestic economy.

As several policy commentators have noted, free trade agreements do not create competitiveness, but they reward it. The real test, therefore, lies not in signing the contract but in preparing the domestic economy to leverage it.

10. Implications for Trade Balances

Concerns that the India–EU FTA may widen India’s trade deficit are not unfounded, but they warrant a nuanced assessment. Unlike earlier agreements, this FTA incorporates a phased, calibrated liberalisation schedule, allowing the domestic industry time to adjust.

The eventual trade balance will depend less on tariff arithmetic and more on the composition and quality of trade. If India succeeds in moving up the value chain and expanding exports in manufacturing, engineering goods, chemicals, and high-value services, the agreement could contribute to a more balanced trade relationship over time. Unlike earlier trade agreements, the India–EU FTA incorporates calibrated liberalisation through phased tariff reductions, quotas, and safeguard clauses, allowing domestic sectors time to adjust to increased competition.

The outcome will ultimately depend on how effectively India leverages the agreement to upgrade capabilities rather than merely expand volumes. Effective implementation will be critical to translating negotiated market access into realised gains. This will require coordinated action across customs facilitation, standards compliance infrastructure, export finance, and MSME capacity-building to ensure that smaller firms are not excluded from the benefits of liberalisation.

11. Conclusion: A Strategic Opportunity, not a Shortcut

The India–EU Free Trade Agreement is therefore not an endpoint but a test of policy capacity and institutional readiness. Its success will depend less on negotiated tariff schedules and more on India's ability to strengthen domestic competitiveness, support smaller enterprises, and adapt to evolving regulatory standards.

The agreement is neither a silver bullet nor a symbolic gesture. It represents a strategic opportunity—one that can enhance India's export competitiveness, deepen supply chain integration, and elevate its position in global trade governance if supported by sustained domestic reform. At the same time, inadequate preparedness could deepen asymmetries and expose the domestic industry to pressures it is not yet equipped to absorb. Policymakers have framed the agreement as a forward-looking instrument, intended to align India with future trade and production patterns rather than merely exploiting existing comparative advantages.

Ultimately, the agreement will be judged not by the scale of its ambition, but by the extent to which India converts access into advantage and strategy into sustained economic gains.

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