



# INDIA–EUROPEAN UNION FREE TRADE AGREEMENT: ECONOMIC PROSPECTS, STRATEGIC CONVERGENCE, AND POLICY CHALLENGES

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## ABSTRACT

*The proposed India–European Union Free Trade Agreement (India–EU FTA) represents one of the most comprehensive and strategically significant trade initiatives involving a major emerging economy and an advanced economic bloc. This study analyses the economic, sectorial, strategic, and regulatory implications of the India–EU FTA in the context of a rapidly evolving global trade environment marked by geopolitical uncertainty and weakening multilateralism. Drawing on secondary data, existing empirical literature, and policy analysis, the paper evaluates the potential impact of the agreement on trade flows, services liberalisation, investment patterns, and sectorial competitiveness. The findings suggest that while the FTA offers substantial opportunities for export diversification, services expansion, and value-chain integration, its benefits are likely to be uneven across sectors and firm sizes. Services, pharmaceuticals, and investment-intensive manufacturing emerge as key gainers, whereas MSMEs and labour-intensive sectors may face short-term adjustment pressures due to heightened competition and regulatory compliance requirements. The study further highlights the strategic importance of regulatory cooperation, digital governance, and sustainability standards in determining the long-term effectiveness of the agreement. The paper concludes that the success of the India–EU FTA will depend critically on complementary domestic reforms, institutional capacity-building, and a calibrated implementation strategy to ensure inclusive and sustainable trade outcomes. The analysis is based on publicly available official communications, press releases, and secondary reports at the time of writing.*

**KEYWORDS:** India–EU FTA; Free Trade Agreements; Trade Liberalisation; Services Trade; Regulatory Cooperation; Strategic Trade Policy

## INTRODUCTION

Free Trade Agreements (FTAs) have emerged as a central instrument of international economic integration in the post-multilateral trade era. With prolonged stagnation in World Trade Organization (WTO) negotiations, countries increasingly rely on bilateral and regional trade agreements to secure market access, enhance competitiveness, and deepen strategic partnerships (WTO, 2022). As of 2022, more than 350 preferential trade agreements were in force globally, reflecting a significant shift toward selective liberalization and rule-based economic cooperation (Pandey & Unnikrishnan, 2023). India's engagement with FTAs has evolved cautiously over time, shaped by concerns over trade deficits, domestic industry protection, and uneven sectoral outcomes. Although India has signed multiple FTAs since the early 2000s, empirical evidence suggests that many agreements—particularly with East and Southeast Asian economies—have coincided with rising import dependence and persistent trade imbalances (Palit, 2022; GOI, 2022). These outcomes have intensified debates regarding the design, sequencing, and strategic intent of India's trade policy framework. In this context, the proposed Free Trade Agreement between India and the European Union (EU) assumes critical economic and geopolitical significance. The EU is India's largest trading partner, accounting for a substantial share of India's merchandise and services trade, while India represents a rapidly expanding market for European exports and investments (Kumar, 2025). Negotiations for the EU–India Broad-based Trade and Investment Agreement (BTIA), initiated in 2007, were suspended in 2013 due to divergences over tariff liberalization, services mobility, intellectual property rights, and sustainability standards. However, renewed negotiations reflect changing global realities, including supply-chain reconfiguration, geopolitical realignments, and the shared aspiration of both partners to emerge as autonomous actors in a multipolar world. Unlike several of India's earlier FTAs, the EU–India FTA is expected to be comprehensive, covering not only trade in goods but also services, investment, digital trade, government procurement, and sustainable development. India's competitive advantage in services exports, coupled with the EU's strength in technology, capital, and high-value manufacturing, presents the potential for a more balanced and mutually beneficial agreement (Pandey & Unnikrishnan, 2023). Nevertheless, concerns persist regarding compliance costs for Indian MSMEs, stringent environmental and labour standards, and asymmetric market access. Against this backdrop, this article examines the economic rationale, strategic relevance, and policy challenges of the EU–India Free Trade Agreement. By situating the agreement within India's broader FTA experience and evolving global trade architecture, the study seeks to assess whether the EU–India FTA can overcome past limitations and contribute to sustainable and inclusive economic integration.

## OBJECTIVES OF THE STUDY

- To analyse the economic and sectoral implications of the India–EU FTA.
- To assess the strategic and regulatory dimensions of the India–EU FTA.



## REVIEW OF LITERATURE

The proliferation of Free Trade Agreements (FTAs) has become a defining feature of the contemporary global trade architecture, particularly in the context of stagnating multilateral negotiations under the World Trade Organization (WTO). Existing literature suggests that FTAs have evolved beyond traditional tariff-reduction instruments to encompass regulatory cooperation, investment protection, services liberalisation, digital trade, and sustainability commitments (WTO, 2022). This shift reflects the growing importance of preferential trade regimes in shaping global value chains and geopolitical alignments.

### India's FTA Strategy and Outcomes

Scholarly assessments of India's FTA experience reveal mixed outcomes. Empirical studies indicate that while India has expanded its network of preferential trade agreements since the early 2000s, particularly with ASEAN and East Asian economies, these agreements have not consistently translated into improved export performance or trade balance sustainability (Palit, 2022). Pandey and Unnikrishnan (2023) demonstrate that many of India's FTAs coincided with a secular rise in imports, especially in manufacturing sectors, while export gains remained concentrated in a narrow range of products and destinations. These findings have contributed to India's historically cautious approach to comprehensive trade liberalisation.

However, literature also highlights sectoral heterogeneity in FTA outcomes. Studies focusing on services trade argue that India possesses a structural comparative advantage in knowledge-intensive services, including information technology, professional services, and research and development. This has prompted calls for a strategic reorientation of India's trade agreements toward services, investment, and regulatory cooperation rather than goods-centric liberalisation (Singh, 2022).

### Economic Rationale of the India–EU FTA

The proposed India–EU Free Trade Agreement has attracted significant scholarly attention due to the economic scale of the two partners. The European Union is India's largest trading partner, while India represents a rapidly expanding market for EU exports and investment. Quantitative analyses using gravity models and general equilibrium frameworks project notable trade creation effects under the FTA, particularly in high-value manufacturing and services (Nordås, 2023). Nonetheless, these studies also suggest asymmetric gains, with EU exports to India expected to expand more rapidly than Indian exports to the EU, reflecting differences in regulatory standards, market access conditions, and firm-level competitiveness.

The Conversation's analysis situates the agreement as a potential “mega-deal” capable of influencing global trade norms by reinforcing rules-based trade amid rising protectionism. This perspective aligns with emerging literature that views comprehensive FTAs as instruments of systemic stabilisation in an increasingly fragmented global economy.

### Services Trade and Regulatory Dimensions

A dominant strand of literature underscores the centrality of services trade in the India–EU FTA. Dash and Bhattacharjee (2024) identify significant export potential for India in sectors such as computer and information services, professional and management consulting, transport, and technical services. However, regulatory barriers—particularly those related to data protection, professional qualification recognition, and labour mobility—are widely recognised as major constraints. Nordås (2023) finds that reductions in domestic regulatory restrictions account for a substantial proportion of predicted gains in services trade, exceeding the impact of tariff concessions alone. This body of work suggests that the effectiveness of the India–EU FTA will depend less on nominal market access and more on regulatory convergence, mutual recognition agreements, and institutional capacity-building.

### Geopolitical and Strategic Perspectives

Recent literature increasingly frames the India–EU FTA within a broader geopolitical context. Scholars argue that both India and the EU can be characterised as “middle powers” seeking strategic autonomy in a multipolar world dominated by intensifying US–China rivalry (Kumar, 2025). The FTA is thus interpreted not only as an economic agreement but also as a strategic instrument aimed at securing supply chains, promoting trusted digital infrastructure, and shaping global standards in sustainability and technology governance. This strategic framing marks a departure from earlier economic-centric analyses of FTAs and highlights the evolving role of trade agreements as tools of foreign policy and geopolitical alignment.

### Sustainability, Standards, and Development Concerns

Another important stream of literature focuses on sustainability provisions embedded in modern FTAs. While EU-driven commitments on labour standards, environmental protection, and climate-related measures are seen as enhancing long-term development outcomes, concerns persist regarding their short-term adjustment costs for developing economies (Pandey & Unnikrishnan, 2023). MSMEs and labour-intensive sectors in India may face compliance challenges, potentially limiting their ability to benefit from preferential access unless supported by phased implementation and technical assistance mechanisms.

## RESEARCH GAP

Despite a growing body of research, existing studies often analyse the India–EU FTA through isolated economic, sectoral, or geopolitical lenses. There is limited integrative work that simultaneously examines trade outcomes, regulatory dynamics, and strategic implications. Moreover, empirical evidence on distributional impacts across firm sizes and regions within India remains



sparse. Addressing these gaps is essential to assess whether the India–EU FTA can deliver inclusive and sustainable economic integration.

**Table 1: Sectorial Implications of the India–EU Free Trade Agreement**

Sector	Expected Impact	Key Opportunities	Major Challenges
<b>Manufacturing (Automobiles, Machinery, Chemicals)</b>	Moderate to High	Technology transfer, productivity gains, integration into EU value chains	Increased import competition, pressure on domestic MSMEs
<b>Textiles and Apparel</b>	Moderate	Expanded market access to EU, employment generation	Compliance with EU labour and sustainability standards
<b>Pharmaceuticals</b>	High	Access to advanced EU markets, R&D collaboration	Regulatory approvals, intellectual property compliance
<b>Agriculture and Agri-exports</b>	Low to Moderate	Niche exports (spices, marine products, organic goods)	Sanitary and phytosanitary (SPS) standards, subsidy asymmetries
<b>Information Technology and IT-enabled Services</b>	High	Services exports, digital trade, skilled employment	Data protection rules, regulatory harmonisation
<b>Professional and Business Services</b>	Moderate to High	Market access through mutual recognition agreements	Restrictions on labour mobility, qualification recognition
<b>MSMEs</b>	Uneven	Participation in global value chains	Compliance costs, limited institutional capacity
<b>Investment and Infrastructure</b>	High	FDI inflows, supply-chain diversification	Policy certainty, implementation delays

The sectorial analysis indicates that the India–EU FTA is likely to generate differentiated outcomes across sectors, reflecting variations in competitiveness, regulatory preparedness, and integration into global value chains. Manufacturing sectors such as automobiles and machinery may experience productivity-enhancing competitive pressures, though short-term adjustment costs for domestic firms—particularly MSMEs—remain a concern. In contrast, India’s traditional export sectors, including textiles and apparel, stand to benefit from enhanced market access, provided compliance with EU sustainability and labour standards is effectively managed. The services sector emerges as a key beneficiary, especially information technology and professional services, where India holds a strong comparative advantage. However, the realisation of these gains depends heavily on regulatory cooperation, including data governance frameworks and mutual recognition of qualifications. Agricultural exports are expected to witness relatively limited gains due to stringent EU sanitary and phytosanitary standards. Overall, the table highlights that while the India–EU FTA offers substantial growth opportunities, especially in services and investment, policy support and institutional strengthening are essential to ensure balanced and inclusive sectorial outcomes.

### Strategic and Regulatory Dimensions of the India–EU Free Trade Agreement

The India–European Union Free Trade Agreement extends beyond conventional trade liberalisation to encompass strategic and regulatory dimensions that reflect the evolving nature of global economic governance. In an era marked by geopolitical uncertainty, supply-chain disruptions, and increasing fragmentation of the multilateral trading system, the India–EU FTA represents a strategic effort by both partners to reinforce rules-based trade and deepen economic cooperation.

**Table 2 : Policy Matrix for the India–EU Free Trade Agreement**

Policy Dimension	Key Issues Identified	Policy Measures Required	Expected Outcomes
<b>Trade Liberalisation</b>	Asymmetric tariff reduction; risk of import surge in sensitive sectors	Phased tariff liberalisation with safeguard mechanisms	Balanced trade expansion and reduced adjustment shocks
<b>Manufacturing &amp; Industry</b>	Competitive pressure on domestic firms, especially MSMEs	Productivity-linked incentives, technology upgradation schemes	Enhanced competitiveness and value-chain integration
<b>Services Trade</b>	Regulatory barriers in professional and digital services	Mutual recognition agreements, eased mobility for skilled professionals	Expansion of services exports and skilled employment
<b>Regulatory Cooperation</b>	Divergent standards and non-tariff barriers	Regulatory dialogue platforms and harmonisation mechanisms	Reduced compliance costs and improved market access
<b>Digital Trade &amp; Data Governance</b>	GDPR compliance challenges for Indian firms	Alignment of digital standards and data protection frameworks	Growth in digital trade and cross-border data flows
<b>Sustainability &amp; Labour Standards</b>	High compliance costs for labour-intensive sectors	Phased implementation and technical assistance	Inclusive and sustainable trade outcomes
<b>MSME Participation</b>	Limited capacity to meet EU standards	Targeted support programmes and access to finance	Broader MSME integration into global value chains
<b>Investment &amp; Supply Chains</b>	Policy uncertainty and infrastructure gaps	Stable investment framework and infrastructure development	Increased FDI and resilient supply chains
<b>Institutional Framework</b>	Weak dispute resolution and implementation capacity	Strengthened institutional and dispute settlement mechanisms	Predictable and rules-based trade environment



**Table 3 : India–EU Bilateral Trade Trends (US\$ Billion)**

Year	India’s Imports from EU	India’s Exports to EU
2015	43.91	44.69
2016	40.13	45.74
2017	44.21	51.19
2018	52.29	57.47
2019	49.60	56.00
2020	38.10	46.20
2021	52.64	69.36
2022	64.31	84.69
2023	59.56	88.66
2024	65.12	93.08
2025	60.68	75.85

Source: www.tradeimex.in

**India-EU Trade in the Last 10 Years**



The figure depicts year-wise trends in India’s imports from and exports to the European Union. Bilateral trade shows steady growth over the period, with a pronounced decline in 2020 due to the COVID-19 shock, followed by a strong recovery during 2021–2024. India’s exports to the EU have grown faster than imports in the post-pandemic period, indicating improving export performance.

**Table 4 : Impact of the India–EU FTA on EU Exports to India by Product Category**

Product Category	2024 EU Exports to India (US\$ Billion)	Current Tariffs	Future Tariffs under FTA
Machinery & Electrical Equipment	19.21	Up to 44%	0% *
Aircraft & Spacecraft	7.14	Up to 11%	0% *
Pearls, Precious Stones & Metals	4.85	Up to 22.5%	0% ***
Optical, Medical & Surgical Equipment	3.95	Up to 27.5%	0% **
Plastics	2.35	Up to 16.5%	0% *
Chemicals	2.16	Up to 22%	0% *
Iron & Steel	2.10	Up to 22%	0% *
Motor Vehicles	1.88	110%	10% (Quota of 250,000 units)
Pharmaceuticals	1.07	11%	0% *

Source: www.tradeimex.in

\* Gradual elimination over the transition period

\*\* Faster elimination for medical and health-related goods

\*\*\* Special rules linked to value addition and certification



The proposed EU-India FTA represents a monumental shift from a high-tariff protectionist regime to a liberalized corridor, specifically targeting industrial modernization and market access for luxury goods. By slashing duties on over \$19 billion worth of machinery and electrical equipment from 44% to 0%, the agreement effectively subsidizes India's manufacturing infrastructure while providing EU exporters a massive competitive edge. The most radical change, however, is the 91% reduction in automotive tariffs, which transforms the Indian market from a closed environment to a high-growth opportunity for European carmakers, albeit regulated by a 250,000-unit quota. Ultimately, this trade pivot exchanges India's immediate tariff revenue for long-term gains in technological integration, lower capital costs, and increased availability of advanced medical and pharmaceutical goods.

The India-EU Free Trade Agreement (FTA), as per official statements and media reports finalized in January 2026 after two decades of negotiations, is a transformative pact covering 25% of global GDP and a combined market of 2 billion people. Often hailed as the "Mother of All Deals," it establishes a new economic corridor focused on supply chain resilience and strategic autonomy.

### Core Pillars of the Agreement

- **Unprecedented Tariff Liberalization:** \* **EU Commitment:** The EU will eliminate duties on **99.5%** of Indian export value. Approximately **90.7%** of Indian goods will enjoy immediate zero-duty access.
  - **India Commitment:** India is liberalizing **97.5%** of EU export value. While roughly half of the tariffs will be removed immediately, the rest will be phased out over 5, 7, or 10 years.
- **Sectoral Breakthroughs:**
  - **Automobiles:** Indian import duties on EU cars will plummet from **110% to 10%** over a phased period, subject to a quota of 250,000 units.
  - **Industrial & High-Tech:** Tariffs on machinery (up to 44%), chemicals (22%), and pharmaceuticals (11%) will be eliminated, lowering capital costs for Indian manufacturing.
  - **Agriculture & Spirits:** Significant duty cuts on wines (down to 20–30% via quotas), olive oil, and fruit juices.
- **Boost for Indian Exports:**
  - **Labor-Intensive Sectors:** Immediate zero-duty access for **textiles, leather, footwear, gems, and jewelry** levels the playing field with competitors like Vietnam and Bangladesh.
  - **Agriculture:** Preferential access for tea, coffee, spices, and fresh produce, aiming to double agricultural export competitiveness.
- **Services and Mobility:**
  - **Services:** The EU has opened **144 sub-sectors** (including IT, engineering, and education), while India has opened **102**.
  - **Professional Mobility:** A "comprehensive mobility framework" ensures predictable entry for professionals, intra-corporate transferees, and even family members, alongside the recognition of **AYUSH** (traditional medicine) practitioners.
- **Strategic & Sustainable Cooperation:** \* Includes a €500 million fund to support India's **green transition** and carbon reduction efforts.
  - Establishes binding commitments on labor rights, gender equality, and environmental protection (aligned with the Paris Agreement)

### CONCLUSION

Overall, the India–EU FTA holds the potential to redefine bilateral economic relations and contribute to a more resilient and inclusive global trade architecture. However, its success will depend on the alignment of trade commitments with domestic policy reforms and institutional readiness. Future research may focus on firm-level and regional impacts to assess whether the agreement delivers broad-based and sustainable development outcomes. The India–European Union Free Trade Agreement marks a significant evolution in India's trade policy, signalling a shift toward deeper and more comprehensive economic engagement with a major advanced economy. Unlike earlier preferential trade agreements, the India–EU FTA integrates traditional market access provisions with regulatory cooperation, services liberalisation, sustainability commitments, and strategic alignment. This study finds that the agreement has the potential to reshape bilateral trade relations, enhance investment flows, and strengthen value-chain integration, particularly in high-value manufacturing and knowledge-intensive services. However, the analysis also reveals that the economic and sectoral impacts of the FTA are likely to be uneven. While services, pharmaceuticals, and investment-driven sectors are well positioned to benefit, MSMEs and labour-intensive industries may face adjustment challenges arising from increased competition and compliance with stringent regulatory standards. The strategic and regulatory dimensions of the agreement therefore emerge as critical determinants of its overall success. The study underscores the importance of domestic policy alignment, regulatory preparedness, and institutional strengthening in maximising the gains from the India–EU FTA. Phased liberalisation, targeted support for MSMEs, regulatory capacity-building, and effective dispute resolution mechanisms are essential to ensure that the agreement delivers broad-based and sustainable economic benefits. In conclusion, the India–EU FTA holds considerable promise as both an economic and strategic partnership, but its long-term success will depend on the extent to which trade commitments are complemented by domestic reforms and inclusive policy implementation.



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