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FROM MARKET ACCESS TO SUSTAINABLE TRANSFORMATION: EVALUATING THE INDIA–EU FTA's IMPACT ON INDIAN MSMEs

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ABSTRACT

This paper discusses how the India-European Union Free Trade Agreement (FTA) may affect the Micro, Small and Medium Enterprises (MSMEs) in India in terms of structural change, formalization and Sustainable Development Goal (SDG) oriented growth. Based on the current trend in policy formulation, theoretical frameworks of heterogeneous firm trade models and global value chain analysis, as well as the support of new government policies on export promotion, the paper creates a conceptual SDG model that associates trade liberalization, convergence of regulation, and competitiveness of the MSMEs. It brings together secondary sources of evidence on the concluded India-EU FTA, export promotion missions and MSME based interventions to evaluate ways in which the FTA can influence the productivity, formalization, and inclusive growth. The results show that there is a rich potential of MSME upgrading, export diversification, and integration into the global value chains, and the policy, which is necessary to complement, is to transform trade opening into inclusive economic transformation.

***Keywords**: India-EU FTA, MSMEs, Sustainable Development Goals*

INTRODUCTION

The strategic agenda of structural transformation in India is the transformation of resources in low-productivity informal sectors to the high-productivity manufacturing and services, which is part and parcel of the realization of middle- and high-income. The key players in this process are MSMEs since they play a role in employment, exports, and development of the region. Nevertheless, the informality, low technological intensity and also low global integration have traditionally provided a constraint on productivity growth and export competitiveness.

India-EU Free Trade Agreement in January 2026 will be a turning point in the India trade policy after a long time. The India-EU FTA is one of the most important trade agreements between India and the EU, which is aimed at enhancing the accessibility of the markets, freeing up tariffs, and broadening the services and investment cooperation (PwC, 2026). New opportunities and challenges of MSMEs emerge due to this agreement, and it is important to evaluate its implications regarding structural transformation, formalization, and inclusive growth.

RESEARCH OBJECTIVES

This study aims to:

1. To identify the role of MSMEs in the transformation of the Indian structure and their export environment.
2. To examine the consequences of the India-EU FTA on the MSMEs
3. To conceptualize the theoretical Sustainable Development Goal (SDG) model between the India-EU FTA and SDG-oriented economic performance.

LITERATURE REVIEW

India-EU Free Trade Agreement (2026)-Negotiations on an India-EU FTA ended almost 20 years later, in January 27, 2026, it was signed and it is a significant shift in India trade policy. The FTA will lead to opening up of Indian exports to the EU on more than 97 percent of tariff lines in terms of Indian exports, which is a large portion of Indian exports by value, including labour-intensive Indian exports such as textiles, leather, and gems (Modern Diplomacy, 2026; Indian government factsheet) (moderndiplomacy.eu).

Phased tariff cuts and services, investment, and regulatory cooperation are also covered by the agreement, which will put India in a deeper integration into the economy of the EU and the other developed markets (Wikipedia, 2026)

MSME Export Promotion and Institutional Support- The government of India has addressed the fact that the trading environment is evolving, by initiating specific projects aimed at export promotion. Export Promotion Mission (EPM) with an outlay of 25,060 crore was approved in order to enhance competitiveness, reduce export costs, ease access to trade finance, and facilitate adherence to international standards- important considerations when MSMEs are about to participate in the global market (Press Information Bureau, 2026) (India Brand Equity Foundation).

Other interventions within the EPM are export factoring interest subversion, credit guarantee, and logistics support, which manifest a shift in policy of organized support of MSMEs in international markets (LiveMint, 2026).

MSME Competitiveness and Compliance Challenges- Although the FTA and export promotion initiatives have provided opportunities, there are still a number of challenges. Meanwhile, due to the digital compliance, sustainability and regulatory capabilities, MSMEs tend to become less competitive in the high-standards markets, including the EU. To overcome these barriers, there have been policies of subsidized compliance reimbursements and technical assistance, but the capacity and scale gaps remain, particularly in micro and smaller companies (Whalesbook, 2026)

Risk and Sectoral Disparities- Industry analysts warn that liberalization in trade can open some of these segments of MSMEs to competition in imports particularly in those cases where the local producers are not at a scale or with technological capacity. In particular, the short-term adjustment pressures in industries that are dependent on imported middle-level products or face significant regulation expenses can be observed without sufficient protection or transition policies.

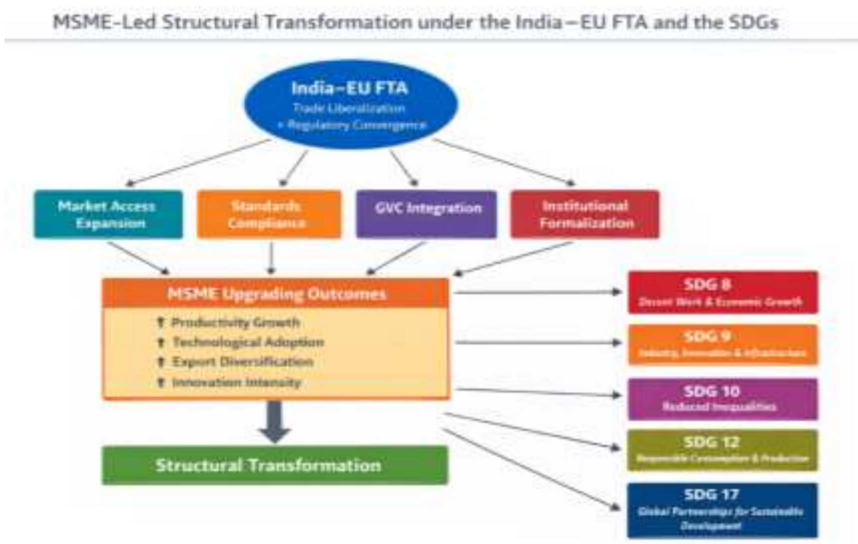
METHODOLOGY

This paper takes a conceptual-analytic approach, which synthesizes secondary data and policy papers to create a theoretical model of the SDG and evaluates the implication of the India-EU FTA on MSMEs. There are official trade agreements, government export missions, industry and policy analysis and new economic reporting on trade and MSME efforts.

CONCEPTUAL FRAMEWORK

The India -EU FTA is a structural policy tool that has a variety of channels of transmission:

1. Expansion of market access: Favoured help and preferential treatment in the EU market.
2. Regulatory Convergence: Standardisation of quality, sustainability and compliance.
3. Export Promotion Mechanisms: Government programs concerning the competitiveness and market entry of MSME exports.
4. Institutional Support: Institutional structures of financial and logistic support to facilitate compliance and scaling.



DISCUSSION

India-EU Free Trade Agreement (FTA) is a paradigm change in the trade structure in India through a stronger integration with Europe. To Indian MSMEs, the agreement is not just a tariff-liberalization mechanism but a multidimensional reform framework that has an impact on the market access, regulatory standards and production incentives. Preferential treatment to a high income and high standards market opens export growth opportunities, especially in the labour-intensive industries like textiles, leather, processed foods and light engineering. Nevertheless, the evolutionary effect of such access is determined by the ability of MSMEs to internalize new norms, increase production, and improve turnover.

In a heterogeneous-firm trade, intra-sectoral reallocation impacts will probably be strengthened by the FTA. More efficient and export oriented MSMEs can grow in terms of output, embrace new technologies and become part of global value chains gaining aggregate productivity. Exportation can have many of the effects of learning-by-exporting such as quality improvement, management innovation and process formalization. On the other hand, less productive companies could experience competitive threats by both EU imports and internal mergers, which could either push them out of the market or force them to upgrade. The overall productivity result will hence be contingent upon the allocation of company capabilities and access to institutional assistance.

Formalization also comes forth as an important transmission channel between the FTA and structural change. The EU compliance requirements, which include the sustainability certification, traceability, labour standards, and the digital documentation, increase the barriers to entry into the cross-border trade. These requirements raise short term compliance costs but also encourage MSMEs to move into the formal economy to obtain access to export finance and credit guarantees as well as institutional procurement mechanisms. With the help of the digital compliance infrastructure and the subsidized certification programs, the FTA can pursue the swift growth of the formal sector and enhance the levels of transparency and financial inclusion in the MSME ecosystem.

The chances of being integrated into European global value chains (GVCs) have both opportunities and strategic challenges. Convergence in regulations and tariff roles will decrease transaction costs; this will allow Indian MSMEs to be suppliers in the networks of EU production. This incorporation may promote specialization, cluster-based modernisation, and backward linkages on home supply chains. Unless the deliberate industrial policy, however, MSMEs can be reduced to low value-added assembly or subcontracting. Complementary technology diffusion, skills development and cluster modernization will be necessary in functional upgrading-into design, branding, and innovation-intensive activities.

Lastly, the extended developmental concerns of the agreement are strongly related to Sustainable Development Goals (SDGs), specifically those to do with economic growth, industrial modernization, lower inequalities, sustainable production, and international collaborations. However, these are not guaranteed results. The asymmetries in gains at the liberalization of trade may arise when adjustment costs and the burden of compliance may be disproportionately imposed on micro and smaller firms. Thus, the India-EU FTA has the transformative potential through integrating with export finance reforms, digital governance systems, incentives to green transition, and MSME clusters development strategies. It is only under these policy complementarities that the FTA can be transformed to inclusive and SDG-consistent structural transformation.

CONCLUSION

Free trade agreement between India and EU is a historic event in the trade and development history of India. To MSMEs, who are key players in job creation, regional expansion and diversification of exports, the agreement has significant structural potential. Increased market access, convergence of regulations and collaboration of institutions could all trigger productivity upgrading, formalization and integration into global value chains through the FTA.

Trade liberalization is, however, not always inclusive. Its distributive and developmental performance is based on the alignment of the domestic policy. In the absence of specific support, compliance support, and financial deepening, the advantages of the FTA can be disproportional to larger and already formalized companies, and this can strengthen structural dualism in the sector of the MSME. The FTA could be used as a structural policy tool that promotes a coherent SDG system, Competitive industrialization, green production shifts, Employment generation, less geographical inequality, Enhanced international economic associations.

It will depend on the long-lasting effects of including the trade policy with MSME development policy, digital governance reforms, and eco-friendly industrial upgrading in India. Combined with the effective institutional back-up and the considerate policy designs, the India-EU FTA can help the MSMEs become the secondary stakeholders in the global trade transformation into the active agents of the SDG-friendly economic development.

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