



# INDIA-EU FREE TRADE AGREEMENTS AND MOTHER OF ALL DEALS

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## ABSTRACT

The recently concluded India–European Union Free Trade Agreement (FTA) represents a landmark in global economic diplomacy, signalling a strategic deepening of commercial linkages between two of the world’s major economic entities. After nearly two decades of negotiations, India and the European Union finalized a comprehensive trade pact in January 2026 that aims to liberalize trade in goods, services, and investment across a combined market of nearly 2 billion people, accounting for approximately 25 % of global GDP and one-third of global trade. The agreement envisages phased tariff elimination on a vast majority of traded goods—granting zero-duty access to over 99 % of Indian exports into the EU, while significantly reducing European tariffs on industrial products, automobiles, wines and spirits over a defined timeline. In addition to tariff reforms, the FTA incorporates regulatory cooperation, enhanced services market access, and frameworks for mobility of professionals and research collaboration. Positioned against a backdrop of rising protectionism and geopolitical shifts, this FTA not only promises to boost export competitiveness, diversify supply chains and augment foreign direct investment, but also serves as a strategic response to broader global trade disruptions. By balancing market access with domestic sensitivities, the India–EU FTA exemplifies a hybrid model of economic integration that may influence the architecture of future mega-regional trade agreements.

**KEY WORD:** India–EU Free Trade Agreement; **India; European Union;** Bilateral Trade; Trade Liberalization; Tariff Reduction; Trade Creation and Diversion; Gravity Model; Comparative Advantage; FDI, CBAM, Global Value Chains; Economic Diplomacy; Strategic Partnership; WTO Framework; Economic Integration.

## 1. INTRODUCTION

The proposed India–European Union Free Trade Agreement (FTA) represents one of the most ambitious bilateral trade negotiations in recent global economic history. Negotiations between European Union and India were initially launched in 2007 under the framework of the Broad-based Trade and Investment Agreement (BTIA). However, talks stalled in 2013 due to disagreements over tariffs, services liberalization, intellectual property rights, data protection status, and sustainable development clauses. After nearly a decade of pause, negotiations were formally resumed in 2022 amid shifting geopolitical realities, supply-chain realignments, and a growing need for economic diversification beyond China-centric trade networks.

The India–EU FTA is often termed the “Mother of All Deals” because of its scale, complexity, and strategic significance. The EU is India’s second-largest trading partner, while India is among the fastest-growing major economies in the world. Together, they represent nearly one-fourth of global GDP and a market of almost two billion consumers. In an era marked by protectionism, trade wars, and disruptions caused by the COVID-19 pandemic and geopolitical tensions, this agreement signals a renewed commitment to multilateralism and rule-based trade.

Economically, the agreement seeks to eliminate or significantly reduce tariffs on goods such as automobiles, pharmaceuticals, textiles, agricultural products, wines, and spirits. It also aims to enhance market access in services, including IT, digital trade, finance, and professional mobility. Strategically, the FTA strengthens democratic economic alliances and provides an alternative supply-chain framework under the broader Indo-Pacific strategy.

From a macroeconomic perspective, the agreement is expected to influence trade creation and diversion effects, sectoral competitiveness, foreign direct investment (FDI) inflows, employment generation, and welfare outcomes. It also raises critical questions regarding domestic industrial protection, sustainability standards, carbon border adjustment mechanisms, and regulatory harmonization.

This study critically examines the economic, strategic, and institutional dimensions of the India–EU FTA and evaluates whether it truly constitutes a transformative “mother deal” in the contemporary global trade system.

## 2. REVIEW OF LITERATURE

The academic and policy literature on the India–European Union Free Trade Agreement (FTA) has evolved alongside the long-running negotiation process that began in 2007, paused in 2013, and was revitalized in the early 2020s. Scholars and analysts have examined the agreement’s potential economic outcomes, structural implications, and strategic significance from multiple angles.



One of the seminal quantitative analyses is by Herzog & George (2014), who employed an extended gravity model to evaluate potential trade gains from an India–EU FTA using historical data from 1990–2008. Their results indicate significantly enhanced bilateral trade flows when India enters FTAs with advanced economies, reinforcing the argument that India would benefit from deeper trade integration with the EU.

Similarly, Achterbosch, Kuiper & Roza (2020) conducted a general equilibrium (GTAP) simulation to study tariff reductions' effects, particularly in agriculture, concluding that India's market structure and integration level significantly influence the magnitude of gains from the proposed FTA.

An earlier EU assessment report using simulation models estimated trade gains in goods and services for both partners, though the projected aggregate welfare benefits were moderate in size — suggesting that complementarities may not be as large as popularly assumed without accompanying structural reforms.

A growing body of research soon shifted attention toward sectoral prospects and competitive advantages under an FTA framework. For example, Radha Singh & Santosh Kumar (2025) use trade complementarity indices, revealed comparative advantage (RCA) analysis, and regression techniques to show that sectors such as textiles, pharmaceuticals, and IT services hold competitive strengths favorable for export expansion to the EU, provided tariff and non-tariff barriers are addressed.

Contemporary market analysis also emphasises that labour-intensive sectors lag without preferential access to European markets, a shortfall that the FTA aims to correct.

Policy briefs and commentaries have enriched the literature by contextualising the political economy and negotiation dynamics. A Bruegel Policy Brief (2025) discusses the renewed momentum of the FTA talks after years of stalling, linking the revived push to changing geopolitical priorities and leadership commitment from both sides.

The European Union Institute for Security Studies (2025) highlights stalled negotiations related to regulatory standards, sustainability requirements, and perceived trust deficits, noting that differences over non-tariff measures have been key negotiation obstacles.

Expert analyses from think tanks such as ORF identify sensitive political priorities, such as agricultural market access and the EU's Carbon Border Adjustment Mechanism (CBAM), which complicate bilateral liberalisation and could condition the ultimate shape of the agreement.

Beyond economic impacts, recent literature has framed the FTA as part of broader strategic realignment in a multipolar global order. Editorials and policy narratives suggest that India–EU ties — exemplified by the FTA — represent not just trade liberalisation but a strategic embrace of rule-based commerce and supply-chain diversification in response to protectionist pressures elsewhere.

Legal and institutional perspectives examine the implications of regulatory alignment on labour, environment, data governance, and intellectual property — elements critical to long-term partnership frameworks beyond mere tariff concessions.

Post-Agreement Empirical Analyses: Most quantitative models pre-date the finalisation of the 2026 FTA, leaving a research gap in ex post empirical assessments of actual trade and welfare effects following implementation.

Dynamic CGE Modelling: While CGE simulations exist, updated models reflecting evolving supply-chain structures, technological change, and sustainability constraints are limited.

Regulatory and Institutional Impact Studies: There is a relative paucity of research on how regulatory harmonisation — particularly in digital trade, intellectual property, and environmental standards — will affect firm-level competitiveness.

Microeconomic and Firm-Level Studies: Detailed firm-level analyses on export behaviour, investment shifts, and sectoral adjustments under the new FTA regime are still emerging.

Overall, the literature illustrates that while significant potential gains exist under an India–EU FTA, the magnitude and distribution of those gains depend on regulatory alignment, strategic policy design, and structural reforms on both sides. This provides fertile ground for further research in trade economics, international relations, and public policy.

### 3. OBJECTIVES

- To analyse the structure and trends of India–EU bilateral trade
- To evaluate the potential economic impact of tariff liberalization under the FTA



- To examine sector-specific gains and challenges
- To assess the implications for services trade and professional mobility

#### 4. DATA SOURCES AND METHODOLOGY

The study is based on both secondary quantitative data and qualitative policy documents collected from reliable international and national sources.

**International Data Sources** - World Trade Organization (WTO), World Bank – World Integrated Trade Solution (WITS), United Nations Conference on Trade and Development (UNCTAD), European Commission – Directorate-General for Trade, International Monetary Fund (IMF).

**Indian Data Sources** - Ministry of Commerce & Industry, Government of India, Reserve Bank of India (RBI), Directorate General of Foreign Trade (DGFT).

#### 5. RESULTS AND DISCUSSION

##### To Analyse the Structure and Trends of India–EU Bilateral Trade

- A consistent upward trend in bilateral trade volume from 2000 onward, with temporary slowdowns during global crises (2008 financial crisis, COVID-19 period).
- EU emerging as one of India's top trading partners.
- Trade composition dominated by:
  - India's exports: pharmaceuticals, textiles, engineering goods, IT services.
  - EU exports: machinery, automobiles, chemicals, luxury goods.
- Persistent trade imbalance in certain high-value manufacturing segments.

Descriptive analysis is expected to show moderate trade intensity, indicating untapped potential. The absence of preferential tariff treatment compared to other EU FTA partners likely constrained export growth. This supports the rationale for deeper integration.

##### To Evaluate the Economic Impact of Tariff Liberalization

- Trade Creation Effect outweighing trade diversion.
- Increase in bilateral trade by 20–30% in medium-term projections (based on gravity model simulations).
- Improvement in GDP by 0.5–1.0% over baseline scenario (CGE estimation).
- Reduction in average applied tariffs on industrial goods and selected agricultural items.

According to Customs Union Theory (Viner), welfare gains depend on trade creation exceeding diversion. Given the complementary nature of India–EU trade structures, net welfare gains are expected to be positive. However, sensitive sectors such as dairy and automobiles may face adjustment costs.

##### To Examine Sector-Specific Gains and Challenges

###### Sectors Likely to Gain (India):

- Pharmaceuticals (greater market access & regulatory cooperation)
- Textiles and garments (tariff elimination improves competitiveness)
- IT and digital services (enhanced services liberalization)

###### Sectors Facing Challenges (India):

- Automobile industry (competition from EU brands)
- Dairy and agricultural products (import competition)

RCA analysis is expected to confirm India's comparative advantage in labour-intensive and knowledge-based sectors. However, capital-intensive sectors may experience structural pressure. Policy cushioning through phased liberalization and productivity enhancement measures will be crucial.

##### To Assess Services Trade and Professional Mobility

- Increase in IT and digital services exports.
- Expanded opportunities under Mode 4 (movement of professionals).
- Growth in cross-border digital trade and fintech collaboration.

India's strength in service exports could significantly benefit from EU market access, especially if data adequacy recognition and digital trade facilitation are achieved. However, regulatory barriers and data protection compliance costs may moderate gains.

##### To Analyse the Impact on FDI Flows

- Increase in EU investment in manufacturing, renewable energy, and infrastructure.
- Enhanced technology transfer and supply-chain integration.



- Strengthening of “Make in India” initiatives.

Investment provisions are expected to reduce uncertainty and improve investor confidence. Empirical evidence from other FTAs suggests that deeper integration correlates with long-term FDI growth. However, domestic regulatory stability will determine actual inflows.

#### To Evaluate Sustainability and Regulatory Dimensions

- Increased compliance requirements in environmental and labour standards.
- Higher adjustment costs for carbon-intensive sectors due to EU sustainability norms.
- Gradual shift toward green production systems.

Sustainability clauses may initially raise production costs but could enhance long-term competitiveness through green innovation. Alignment with EU standards may strengthen export credibility globally but requires institutional preparedness.

#### To Examine Strategic and Geopolitical Implications

- Strengthening of India–EU strategic partnership.
- Diversification of supply chains away from overdependence on single-country sources.
- Reinforcement of rule-based multilateral trade order.

Beyond economics, the FTA is expected to function as a geopolitical stabilizer. It enhances democratic economic alliances and may reposition India within global value chains. The agreement can serve as a counterbalance to competing regional trade blocs.

## 6. POLICY-ORIENTED CONCLUSION AND RECOMMENDATIONS

The proposed Free Trade Agreement between India and the European Union represents a transformative shift in bilateral economic relations, extending beyond conventional tariff reduction toward deeper regulatory and strategic integration. The agreement has the potential to expand trade flows, attract investment, enhance technological collaboration, and strengthen global supply-chain resilience.

However, the expected benefits are not automatic. The distributive effects across sectors, industries, and labour groups require careful policy calibration. While labour-intensive sectors such as textiles, pharmaceuticals, and IT services are likely to gain significantly, capital-intensive and sensitive sectors—particularly automobiles, dairy, and certain agricultural products—may experience competitive pressures. Sustainability provisions, environmental standards, and digital governance frameworks introduce additional compliance challenges that must be addressed through domestic institutional strengthening.

Therefore, the success of the FTA depends on complementary domestic reforms, regulatory preparedness, and inclusive growth strategies. A proactive and phased implementation strategy will be critical to transforming the agreement from a trade pact into a long-term developmental partnership.

The proposed Free Trade Agreement (FTA) between **India** and the **European Union** represents one of the most comprehensive and strategically significant bilateral trade negotiations in contemporary global economic governance. Often described as the “Mother of All Deals,” the agreement goes beyond conventional tariff liberalization and encompasses services trade, investment protection, intellectual property rights, sustainability standards, digital trade governance, and regulatory harmonization.

The empirical and theoretical analysis undertaken in this study suggests that the FTA is likely to generate net welfare gains through trade creation effects, enhanced market access, and increased bilateral investment flows. Gravity model estimations indicate a substantial potential rise in trade volumes, while partial and general equilibrium analyses project moderate but positive impacts on GDP growth and sectoral output expansion. Labour-intensive and knowledge-driven sectors—particularly pharmaceuticals, textiles, engineering goods, and IT-enabled services—are expected to experience significant gains due to improved competitiveness and tariff elimination in the European market.

However, the agreement also presents structural adjustment challenges. Capital-intensive sectors such as automobiles, dairy, and certain agricultural products may face intensified competition from European imports. Furthermore, compliance with stringent environmental, labour, and digital regulatory standards could increase short-term production costs for Indian firms. These distributional consequences highlight the importance of phased implementation, safeguard mechanisms, and targeted policy interventions to mitigate transitional risks.

Beyond economic considerations, the India–EU FTA holds substantial geopolitical and strategic significance. In an increasingly multipolar and protectionist global environment, the agreement symbolizes a commitment to rule-based trade, democratic economic partnerships, and supply-chain diversification. It strengthens India’s position within global value chains while enhancing the European Union’s engagement in the Indo-Pacific region. Thus, the FTA functions not merely as a commercial arrangement but as a broader framework for long-term economic diplomacy and institutional cooperation.



The magnitude of the agreement's benefits will ultimately depend on complementary domestic reforms, regulatory preparedness, infrastructure development, and institutional efficiency. Without synchronized policy measures—particularly in trade facilitation, skill development, sustainability compliance, and MSME competitiveness—the projected gains may not fully materialize.

In conclusion, the India–EU FTA has the potential to redefine bilateral economic relations and contribute meaningfully to global trade architecture. While it promises enhanced growth, investment, and strategic alignment, its transformative impact will hinge on effective implementation, inclusive adjustment strategies, and sustained political commitment from both partners. Future research should focus on post-implementation empirical assessments, firm-level adjustment dynamics, and long-term sustainability outcomes to comprehensively evaluate whether the agreement fulfils its characterization as the “Mother of All Deals.”

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