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MACRO PICTURE:

The India-EU FTA: Strategic Autonomy in a Fragmented Trade Order

By

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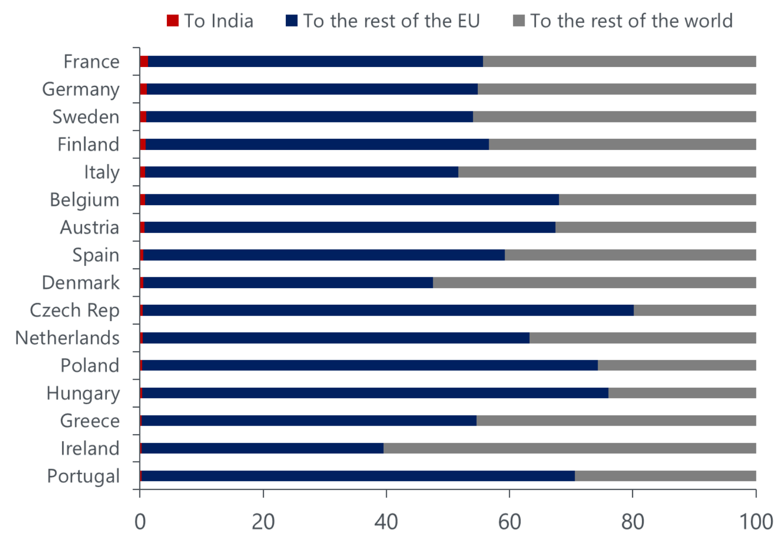
Executive Summary

- The India-EU Free Trade Agreement, branded the "mother of all deals," brings together nearly two billion people and roughly a quarter of global GDP, promising wide-ranging tariff reductions and expanded market access.
- While presented as a triumph of trade liberalisation, the agreement is best understood as a strategic and geopolitical instrument rather than a purely economic one.
- Negotiations began in 2007 but were suspended in 2013 over disputes on market access, regulation, and labour and environmental standards, before being revived amid rising global trade uncertainty.
- US protectionism, including tariffs of up to 50% on Indian goods, played a key role in accelerating the deal's conclusion for both India and the EU.
- For Europe, the agreement reflects growing concern over reliance on the US and China and forms part of a broader push toward strategic autonomy through diversified trade partnerships.
- For India, the FTA supports goals of export diversification, integration into global value chains, job creation, and reinforcement of its multi-aligned foreign policy.
- On paper, the deal promises significant gains: bilateral trade exceeds €180 billion, EU exports to India could double by 2032, and annual duty savings for EU exporters may reach €4 billion.
- India stands to benefit from improved access to the EU market in textiles, apparel, leather, pharmaceuticals, and chemicals, particularly in labour-intensive sectors.
- At the macro level, however, India remains a marginal export destination for most EU member states, limiting the agreement's short-term economic impact for Europe.
- Given this low starting point, the FTA is unlikely to be a near-term macroeconomic game-changer for Europe and is better viewed as a strategic hedge than an immediate growth engine.
- Significant sectoral carve-outs remain, notably in agriculture, steel, automobiles, and areas such as investment protection and public procurement.
- The steel sector highlights the agreement's limits, with CBAM fully intact, near-term pressures persisting, and potential gains largely dependent on long-term decarbonisation and downstream demand growth.

Key Picture: European Goods Exports by Destination



Source: Oxford Economics

Introduction: The "Mother of All Deals"

The India–European Union Free Trade Agreement branded as the "mother of all deals" is being celebrated as a triumph of market access. The deal it brings together two billion people in a trade arrangement covering roughly a quarter of global GDP. On paper, it promises tariff elimination across most traded goods, significant cost savings for exporters, and new opportunities for firms on both sides.

Yet to view the deal purely through the lens of trade liberalisation would be misleading. Like many contemporary trade agreements, the India–EU FTA is as much a geopolitical and strategic instrument as it is an economic one. It reflects shifting power relations in the global economy, rising protectionism among major powers, and growing scepticism about the viability of multilateral trade governance. In this sense, the agreement tells us less about the triumph of free trade than about how states are adapting to a fragmented and uncertain global order.

From Stalemate to Revival

The EU and India started negotiations on free trade agreements in 2007, but were later in 2013 suspended over disputes on market access, regulatory standards and labour and environmental provisions. Amid geopolitical and economic uncertainties, the talks were revived and were concluded in 2026, marking the largest such deal between the world's second and fourth largest economies. The US has imposed 50% tariffs on Indian goods, which include a 25% penalty for Delhi's refusal to stop buying oil from Russia. An estimated 70% of India's exports to the US were subjected to these higher tariffs.

For the EU, rising US protectionism has increased the urgency of deals such as the FTA with India. In early 2025, tariff threats linked to disputes over Greenland highlighted the fragility of transatlantic trade relations. For European manufacturers—who exported €531.6 billion to the US in 2024—this has renewed concerns over market access and tariff risk.

Trade Agreements as Instruments of Power

To understand the deeper significance of the India–EU FTA, it is useful to step back from its technical provisions.

Free trade agreements (FTAs) function not merely as as instruments of economic policy, but as central tools of foreign policy, power projection, and domestic political strategy. Despite a substantial literature highlighting the unequal and often asymmeetric nature of the FTAs, states continue to sign them. Governments use them to lock in political commitments, anchor security alliances, secure access to critical resource and at times, to "tie the hands" of future administrations agaist protectionist reversals. In this sense, FTAs operate as rewards for preferred behavior or as strategic devices to for secure geopolitical influence over partners.

As the global trade regime leans toward protectionism and fragmentation, and as the multilateral frameworks, such as the WTO, face growing paralysis, trade governance has increasingly shifted towards bilateralism. In this context, FTAs are expected to proliferate, serving as hedging instruments against trade policy uncertainty.

In this sense, for the EU, the agreement could be seen as the purusit of "strategic autonomy", while reducing the reliance over the US and China and expanded partnerships with the rest of the world. In response to growing uncertainty, the EU has accelerated trade agreements with strategically aligned partners. The EU–Mercosur deal, signed in January 2026, is one pillar, but political resistance and a pending ECJ legal opinion could delay ratification.

For India, it could serve the same objectives. India expects the agreements to diversify its trade partners, raise export value, lower import barriers, and provide more predictable trade rules. They are also intended to integrate India into global value chains, enhance competitiveness in developed markets, and support job creation. Beyond economics, the deals carry a geopolitical role by strengthening trust with partners and supporting New Delhi's multi-aligned foreign policy. Notably, the trade deal was paired with a new EU–India security and defence partnership, covering maritime security, cyber resilience, counterterrorism, and defence-industrial cooperation.

What the Agreement Promises

Bilateral trade in goods and services between the European Union and India currently exceeds €180 billion, and the European Commission estimates that EU goods exports to India could double by 2032. The agreement is projected to support nearly 800,000 jobs in the EU and to deliver annual duty savings of around €4 billion for European exporters. Tariffs will be eliminated or reduced on roughly 90% of traded products, granting EU firms preferential access to the world's most populous country and its fourth-largest economy. With around 6,000 European companies already operating in India, the agreement is expected to enhance competitiveness across a wide range of sectors, from machinery and chemicals to food and beverages.

For India, improved access to the EU market promises gains in export-oriented industries such as textiles, apparel, leather, pharmaceuticals, and chemicals. EU tariffs on Indian textiles — among the sectors hardest hit by recent US protectionist measures — will fall from over 10% to zero, strengthening competitiveness in a labour-intensive industry that employs tens of millions of workers.

At the macro level, however, the immediate economic significance of India for Europe should not be overstated. For most EU member states, India currently accounts for only a marginal share of total goods exports, often in the low single digits. As shown in the accompanying figure, even Europe's largest exporters remain overwhelmingly oriented toward the EU internal market and the rest of the world, with India playing a limited role in existing trade patterns. This underlines the modest short-term macroeconomic impact of the India–EU FTA for Europe.

Seen from this perspective, the agreement is unlikely to be a macroeconomic game-changer for Europe in the near term. Given the low starting point, even large percentage increases in exports to India translate into relatively small effects on aggregate European growth, employment, or trade balances. For Europe as a whole, the FTA is therefore better understood as a strategic hedge than as a short-term engine of demand.

The tension between these two interpretations is central to understanding the agreement. In the short run, the deal does little to alter Europe's macroeconomic outlook. Over the longer horizon, however, it reflects a deliberate effort to position European firms within a fast-growing economy at a time when access to traditional markets has become increasingly politicised. In this sense, the FTA is less about today's trade flows than about managing tomorrow's geopolitical and economic risks.

Strategic Autonomy: Different Paths, Shared Logic

Both the EU and India approach the agreement through the lens of strategic autonomy, though their objectives differ. For the EU, the deal forms part of a broader effort to reduce dependence on the US and China while expanding partnerships with large, strategically aligned economies. The recently signed EU–Mercosur agreement, concluded in January 2026, is another pillar of this strategy, though political resistance and pending legal challenges could delay its ratification.

For India, the FTA aligns with a long-standing goal of diversifying trade partners, upgrading exports, and integrating more deeply into global value chains. The agreement is intended to enhance competitiveness in developed markets, support job creation, and provide more predictable trade rules. Beyond economics, it strengthens India's multi-aligned foreign policy by deepening ties with Europe without locking New Delhi into exclusive blocs.

Notably, the trade agreement was paired with a new EU–India security and defence partnership, covering maritime security, cyber resilience, counterterrorism, and defence-industrial cooperation — underscoring the geopolitical dimension of the deal.

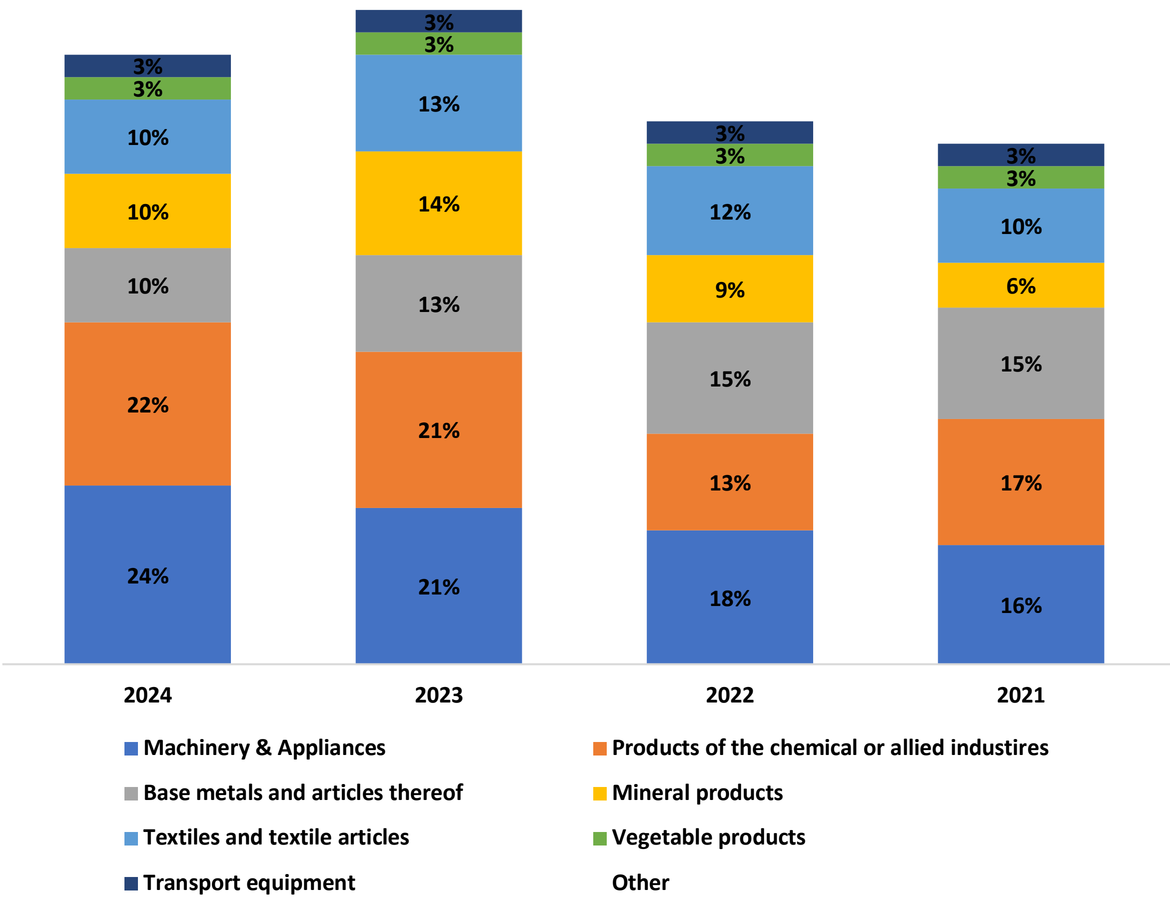
Key Provisions and Strategic Carve-Outs

Despite its breadth, the agreement is characterised by significant sectoral carve-outs and safeguards — a reminder that modern trade deals are as much about managing sensitivities as opening markets.

Tariff Liberalisation

The deal eliminates or reduces tariffs on 96.6% of EU goods exports to India and 99.5% of Indian goods exports to the EU. European industrial exports — including machinery, electrical equipment, medical devices, chemicals, and aerospace products — will largely see tariffs fall to zero. Major gains are also expected in wine, spirits, beer, and processed foods, sectors that stand to benefit from India's expanding middle class. Tariffs on EU industrial exports, including machinery and electrical equipment (€16.3 billion in 2024), medical devices, chemicals, steel, and aerospace, will largely fall to zero.

Figure 1: India's Top Exports To EU (% Share)



Source: Think ING

India's Export Gains

India secures full tariff elimination on textiles, apparel, and leather, strengthening its position in the EU's $125 billion textile market. Pharmaceutical and chemical exports benefit from both tariff reductions and lower regulatory barriers, improving access to a high-value market.

Sensitive Sectors and Exclusions

Agriculture remains heavily protected on both sides. Staple and politically sensitive agricultural products are largely excluded from full liberalisation, reflecting employment concerns in India and entrenched protection in the EU.

Steel is only partially covered. Market access is managed through quotas and safeguard mechanisms rather than full tariff elimination, and the EU's Carbon Border Adjustment Mechanism (CBAM) remains fully in force. Automobiles face phased, quota-based liberalisation, with lower-priced vehicles excluded (priced roughly below €15,000) and duties on eligible cars falling gradually from around 110% to roughly 10%. Provisions for completely knocked-down units remain unclear, suggesting local assembly will continue under existing policies in line with India's "Make in India" strategy.

Investment protection, government procurement, and geographical indications are either treated cautiously or negotiated separately, with full details pending the release of legal texts and annexes. Geographical indications, covering products such as European wines, spirits, and specialty foods, are being negotiated separately within the broader trade framework, allowing for product-specific treatment outside standard tariff schedules.

CBAM, Steel, and the Limits of Liberalisation

Nowhere are these tensions clearer than in the steel sector. The steel industry has become a strategic priority in India, reflecting its central role across a wide range of downstream sectors as the country pursues manufacturing-led growth under initiatives such as Make in India. Accounting for roughly 2% of national GDP, India is currently the world's second-largest steel producer and is on track to become the second-largest consumer of steel globally. At the regional level, India and Southeast Asia are emerging as distinct engines of steel demand growth. In India's case, steel consumption is projected to nearly double by 2035, underscoring the sector's importance to the country's long-term industrial and infrastructure expansion.

Near-term impact on India's steel sector is limited. Carbon regulation, tariff structures, and timing remain binding constraints, with CBAM fully intact and unchanged by the agreement. The pressure has intensified following the EU's withdrawal of GSP benefits for India from 1 January 2026. Around 87% of Indian exports, including iron and steel, now face MFN duties of 2–7%. Industry sources estimate this results in an average competitiveness loss of roughly 20% once tariffs, logistics, pricing effects, and CBAM compliance costs are combined.

India has strongly opposed the measure, with Foreign Minister S. Jaishankar calling it "unacceptable." Analysts warn that CBAM could cut Indian engineering exports by around 10% annually and weigh heavily on steel exports to Europe, traditionally a key market.

While the FTA includes forward-looking CBAM-related provisions—such as cooperation on carbon pricing recognition, verifier accreditation, decarbonisation pathways, and access to EU technical and financial support—market participants stress these improve long-term visibility rather than near-term cost pressures. A potential recovery could emerge toward 2030 if tariff-rate quotas offset costs and India successfully scales green steel production.

In the short term, some see downside risks, as improved access may increase EU steel inflows into India, particularly in specialised segments. Overall, the FTA's steel impact is largely indirect, operating through steel-consuming sectors. Engineering exports to the EU could rise by around 25% from a $21bn base, lifting domestic steel demand, while automobiles and other advanced manufacturing sectors provide incremental support.

Conclusion

India resisted significant efforts during the WTO's Uruguay Round to constrain its development policy space. While the global economy has evolved since then, many of India's structural vulnerabilities persist, including dependence on low-value exports, limited technological upgrading, and exposure to external shocks. At the same time, the EU's earlier retreat from its most stringent intellectual property demands — following sustained resistance from India — demonstrates that firm negotiation can produce more balanced outcomes, at least with such powerful actor as India. This experience suggests that India's growing economic weight provides leverage that need not be surrendered in the rush to conclude trade agreements.

More broadly, the agreement reflects a global trade environment no longer governed by universal rules, but by strategic calculation. In this setting, free trade agreements function less as neutral market-opening instruments and more as tools for managing uncertainty, projecting power, and navigating geopolitical rivalry.