

Unpacking the Impact of India-European Union Free Trade Agreement

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Introduction

On 27 Jan 2026, the European Union (EU) and India announced the successful conclusion of negotiations for a comprehensive Free Trade Agreement (FTA)—a deal years in the making that aims to reshape commercial ties between signatories. The agreement, described by EU institutions as “historic” and by Indian officials as “transformative” for market access, arrives at a moment of shifting global supply chains, rising protectionist pressures, and intensifying geopolitical competition. The deal is rightly termed the “Mother of all Deals” by President of the European Commission, Ursula von der Leyen because of its unprecedented scale, covering nearly two billion people and a quarter of global GDP.¹ This article unpacks the likely economic, sectoral, and strategic impacts of the India–EU FTA: what it contains, who stands to gain or lose, and the main implementation and policy challenges ahead.



Fig 1 In Frame- Indian PM Shri Narendra Modi (centre) with President of the European Commission Ursula von der Leyen (right) and the European Council President, António Costa (left).

Source: The Guardian²

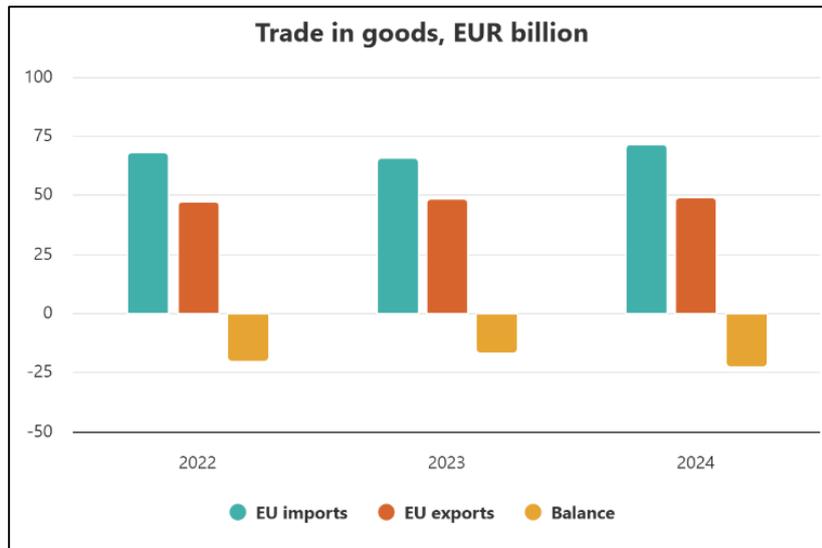
What the Agreement Covers?

The finalised negotiated agreement is wide-ranging. According to official summaries, the FTA provides substantially deeper tariff liberalisation than prior India agreements: the EU will eliminate or reduce tariffs across the vast majority of goods it exports to India, while India will grant preferential access on a large share of its tariff lines for exports to the EU.³

Based on the negotiated terms as of early 2026, the agreement is highly comprehensive, covering roughly 97 per cent of tariff lines between the two partners.⁴ The EU announcement states the deal covers most industrial goods and a substantial share of agricultural and labour-intensive lines; Indian government documents highlight immediate duty elimination on many labour-intensive exports such as textiles, leather, tea, coffee, spices, sports goods, toys and gems & jewellery.⁵ These market-access gains are accompanied by negotiated outcomes on services, rules of origin, sanitary and phytosanitary measures (regulations designed to protect human, animal, and plant health by preventing the spread of diseases, pests, and contaminants through food and agricultural trade), technical barriers to trade, and a chapter on trade and sustainable development.⁶

Current Trade and Investment Landscape

Bilateral trade between the two partners has grown markedly over two decades. In 2024-25 goods and services trade amounted to roughly USD 130-140 bn, with the EU as one of India's top goods partners and a significant investor.⁷ Services trade—particularly in Information Technology (IT), business services and professional services has been a resilient component of the relationship, reaching tens of billions of euros in recent years.⁸ The volume and composition of this trade are important because the FTA's real effects will depend not only on tariff cuts, but on services market opening, investment facilitation and non-tariff measure reductions.



Graph 1- Total India–EU trade (Goods)

Source: European Commission⁹

Who Gains: Winners and Short-Term Prospects

- Labour-Intensive Indian Exporters.** India negotiated preferential access on many tariff lines that matter for labour-intensive sectors — textiles, leather, footwear, small manufactures and certain agro-products, where immediate duty elimination or large cuts are expected to boost export competitiveness to EU markets. The Indian Commerce Ministry fact sheet projects that a significant portion of India’s export value will see immediate liberalisation, creating opportunities for export growth and job creation in manufacturing and agri-value chains.¹⁰
- European Industrial Exporters.** The EU will gain reduced barriers for high-value industrial goods, including a sizeable share of car parts and capital goods. The European Commission projected that tariff reductions could substantially increase EU goods exports to India over the medium term, driven by demand for machinery, pharmaceuticals, and intermediate inputs.
- Services and Digital Firms.** The agreement’s services and investment provisions may provide clearer rules for cross-border services, temporary movement of professionals, and investment protection that could reduce costs for firms in IT, engineering, financial services, legal and consulting sectors.¹¹

The scale of benefits will depend on the depth of services liberalisation and mutual recognition arrangements.

- **Supply-Chain Diversification.** Manufacturers in both blocs seeking to shorten and diversify supply chains will see commercial opportunities — joint ventures, contract manufacturing, and relocation of parts of value chains to India or EU Member States with complementary capabilities.

Which Sectors Face Adjustment Pressures?

- **Protected Domestic Sectors.** The deal reportedly carves out or phases liberalisation for sensitive agricultural and dairy products, but some domestic producers, especially in automotive parts, steel, or specific agricultural commodities — may face stiffer competition from imports, prompting calls for transitional safeguards or support measures.
- **Regulatory Convergence Costs.** Complying with EU regulatory and Sanitary and Phytosanitary standards can be costly for small and medium-sized Indian exporters. While market access may improve on paper, costs of certification, testing, and compliance could limit the potential benefits unless capacity building and technical assistance accompany the liberalisation.
- **Trade-Policy Frictions.** Disputes over subsidies, carbon pricing (including the EU's Carbon Border Adjustment Mechanism[CBAM]), and environmental standards remain flashpoints that can produce retaliatory measures or delay implementation of parts of the agreement. Recent reporting showed disagreement over CBAM exemptions and India's push for differential treatment, illustrating the political sensitivity of environmental trade rules.¹²

Measuring the Expected Impact: Opportunities and Constraints

Several official and independent assessments provide headline projections: European sources suggested the possibility of doubling certain EU goods exports to India by the early 2030s under full implementation scenarios; Indian briefings estimate immediate tariff liberalisation covering a high share of export value and point to potential tens of billions of dollars in incremental export opportunities.¹³ Yet these numbers depend heavily on assumptions about non-tariff barriers, rules of origin, export supply response and complementary domestic reforms. Past FTAs show that actual realised

gains often take years, and depend on the ability of businesses to adapt. Robust gains require effective implementation, streamlined customs, and capacity building.

Strategic and Geopolitical Dimensions

Beyond pure economics, the FTA signals a strategic reorientation in an era of geopolitical flux. For India, deeper integration with the EU diversifies export markets and foreign direct investment sources amid tensions with other major partners. For the EU, strengthening ties with India complements its efforts to build resilient supply chains and strategic partnerships in Asia. Leaders framed the deal as strengthening a rules-based multilateral trading order and as a balancing force in global geopolitics. But strategic alignment brings its own complexities: aligning regulatory frameworks can be politically sensitive and will require sustained diplomacy.¹⁴

Implementation Challenges and Timelines

Negotiators indicated the text was concluded in Jan 2026; standard legal vetting, translation into EU official languages, and ratification procedures will follow before entry into force.¹⁵ For the EU, implementation often requires endorsement by the European Parliament and potentially national ratifications depending on coverage. India will undertake its domestic approval processes. Observers expect staged implementation over months to years, with some sectors given phased reductions or safeguard windows. Importantly, operationalising rules (customs procedures, mutual recognition agreements, certification regimes) is where many FTAs falter if not supported by administrative reforms.¹⁶

Policy Recommendations to Maximise Benefits

- **Targeted Capacity Building.** Technical assistance for Indian Micro, Small and Medium Enterprises, on EU standards, certification, and logistics will accelerate their ability to exploit market access. Donor institutions, public-private partnerships and industry associations can play roles here.
- **Complementary Domestic Reforms.** India should continue reforms in ports, customs modernisation, digital single windows, and investment facilitation so that tariff liberalisation translates into export growth rather than just import competition.

- **Safeguards and Adjustment Assistance.** Phased liberalisation accompanied by clear safeguard mechanisms and worker reskilling programs can ease political resistance and social costs.
- **Environmental and Labour Dialogue.** To avoid future trade disputes, both sides should commit to structured consultations on CBAM, deforestation-linked commodity rules, and labour standards, and seek cooperative solutions rather than exemptions that undermine climate objectives.
- **Institutionalised Monitoring and Review Mechanism.** A joint India-EU oversight body should be established to periodically assess implementation, sector-wise gains, dispute resolution outcomes, and non-tariff barrier reductions. Transparent reporting, stakeholder consultations, and mid-term reviews will ensure that the agreement remains adaptive and accountable.
- **Roadmap for Inclusion of Excluded Sectors and Products.** For sensitive sectors and goods currently left outside the agreement, both sides should adopt a phased negotiation framework with defined timelines. This will allow gradual incorporation of these areas into the trade architecture, ensuring the FTA evolves into a more comprehensive partnership over time.

Conclusion

The India-EU FTA, as announced in January 2026, is a landmark outcome with the potential to re-shape trade, investment, and strategic ties across continents. It offers significant opportunities, particularly for labour-intensive Indian exports and capital-goods and services exports from the EU, but the magnitude of gains will be determined by effectiveness of implementation, accompanying reforms, and resolution of politically sensitive issues such as carbon pricing and regulatory convergence. Policymakers on both sides must therefore move beyond headlines and treat the agreement as the start of a long, technical, and political process: only through careful follow-through on standards, customs, capacity building and dispute-resolution will the promise of the deal translate into durable economic gains and resilient strategic partnership.

¹ Hannah Ellis-Petersen and Jennifer Rankin, “‘Mother of All Deals’: EU and India Sign Free Trade Agreement”, *The Guardian*, 27 Jan 2026, <https://www.theguardian.com/business/2026/jan/27/eu-and-india-sign-free-trade-agreement>

² Ibid.

³ “EU and India conclude landmark Free Trade Agreement”, *European Commission*, 27 Jan, 2026, accessed 11 Feb 2026, https://ec.europa.eu/commission/presscorner/detail/en/ip_26_184

⁴ “Factsheet on India-EU Trade Deal”, *Ministry of Commerce and Industry, Government of India*, 27 Jan 2026, accessed 11 Feb 2026, <https://www.commerce.gov.in/wp-content/uploads/2026/01/Factsheet-on-India-EU-trade-deal-27.1.2026.pdf>

⁵ Ibid.

⁶ Ibid.

⁷ “The EU-India trade agreement”, *European Commission*, accessed 12 Feb 2026, https://commission.europa.eu/topics/trade/eu-india-trade-agreement_en.

⁸ “India”, *European Commission*, accessed 12 Feb 2026, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/india_en

⁹ Ibid.

¹⁰ Ibid.

¹¹ Ibid.

¹² Kate Abnett, “EU-India trade deal leaves bloc's carbon border tariff intact”, *Reuters*, 27 Jan 2026, accessed 12 Feb 2026, <https://www.reuters.com/sustainability/climate-energy/eu-india-trade-deal-leaves-blocs-carbon-border-tariff-intact-2026-01-27/>

¹³ “India–EU Free Trade Agreement concluded as a strategic milestone”, *Press Information Bureau*, 27 Jan 2026, accessed 12 Feb 2026, <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2219065&lang=1®=3>

¹⁴ “India-EU Joint Statement on the State Visit and the India-EU Summit”, *Ministry of External Affairs, Government of India*, 27 Jan 2026, accessed 12 Feb 2026.

¹⁵ “How the EU Negotiates and Concludes Trade Agreements”, *Council of the European Union*, accessed 12 Feb 2026, <https://www.consilium.europa.eu/en/policies/trade-policy/trade-agreements/>.

¹⁶ “India, EU wrap up talks for landmark trade deal amid strained U.S. ties”, *Reuters*, 26 Jan 2026, accessed 12 Feb 2026, <https://www.reuters.com/world/china/india-eu-wrap-up-talks-landmark-trade-deal-amid-strained-us-ties-2026-01-26/>

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