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The EU–India Trade Deal: Strategic Diversification in an Era of Uncertainty

UNLAYOUTED VERSION

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Overview

English

- The EU–India FTA generates mutual economic gains of 0.12–0.13% of GDP for both partners, with bilateral trade surging by 41–65%.
- Since the 50 percentage points tariffs imposed by the US cost India 1.6% of GDP, the EU-India FTA provides a crucial hedge while the EU demonstrates commitment to open trade amid global protectionism.
- The EU-India FTA results in a substantial trade diversion from China (an estimated 5–9%), supporting both EU de-risking objectives and India's supply chain diversification strategy.
- The FTA's structural benefits persist regardless of US policy changes making this trade deal a long-term partnership, not a temporary hedge.

Deutsch

- Das EU–Indien-Freihandelsabkommen erzeugt beidseitige Wohlfahrtsgewinne von 0,12–0,13% des BIP, der bilaterale Handel steigt um 41–65%.
- US-Zölle von 50 Prozentpunkten kosten Indien 1,6% des BIP; das Abkommen bietet eine wichtige Absicherung, während die EU ihr Bekenntnis zum offenen Handel bekräftigt.
- Die Handelsumlenkung weg von China ist erheblich (5–9%) und unterstützt sowohl die De-Risking-Ziele der EU als auch Indiens Diversifizierungsstrategie.
- Die strukturellen Vorteile des Abkommens bestehen unabhängig von US-Politikänderungen—dies ist eine langfristige Partnerschaft, keine vorübergehende Absicherung.

Keywords: EU–India FTA, Trade Policy, Tariffs, Supply Chain Diversification, De-risking

1 Introduction

The EU–India Free Trade Agreement was announced at the India–EU summit in New Delhi on January 27, 2026, concluding negotiations that first began in 2007 and were relaunched in 2022 after years of stalemate.[1] The European Commission hailed it as "the most ambitious trade liberalization India has ever granted."[2] This agreement arrives at a moment of highest strategic relevance for both partners.[3] Once in effect, the agreement will link two economic blocs accounting for roughly 1/5 of global GDP and 1/4 of the world's population, making it one of the largest trade agreements ever negotiated — or "the mother of all deals" as it has been called by both EU Commission President von der Leyen and India's Trade Minister Piyush Goyal.[4]

For the European Union (EU), the free trade agreement (FTA) with India represents a powerful signal of continued commitment to open, rules-based trade at a time when the global trading system faces unprecedented strain. The EU has weathered threats of the US tariffs on European goods,including the narrowly averted proposal to impose tariffs related to Greenland, and has finally concluded the EU–Mercosur agreement after 25 years of negotiations, though that deal remains in legal limbo pending ratification.[5] Against this backdrop, the FTA with India demonstrates that the EU can deliver major trade deals with democratic partners who share its commitment to market economics and rule of law.

For India, the timing is shaped by unprecedented pressure from the US tariffs. The tariffs were raised to as high as 50% in August 2025, with an additional penalty linked to India's continued imports of Russian oil. These tariffs disrupted export planning and intensified calls for market diversification.[6] By late January 2026, the US officials signaled that part of the additional tariff could be rolled back if India's Russian oil imports remained low, but signs of a "deal" were rare.[7]

The EU is India's largest trading partner for goods. Bilateral goods trade reached approximately $136.5 billion in financial year (FY) 2024–25.[8] Their FTA will deepen this relationship substan-

[1] Reuters (23 Jan 2026), "India, EU likely to conclude trade talks on Tuesday, opening way for tariff cuts." `https://www.reuters.com/world/india/india-eu-likely-conclude-trade-talks-tuesday-opening-way-tariff-cuts-2026-01-23/`

[2] Table Briefings (27 Jan 2026), "Worauf sich die EU und Indien geeinigt haben." `https://table.media/europe/analyse/freihandelsabkommen-worauf-sich-die-eu-und-indien-geeinigt-haben`.

[3] Frankfurter Allgemeine Zeitung (15 Jan 2026), Rolf J. Langhammer, "EU-Abkommen mit Indien: Klimapolitik wird zum Stolperstein für Freihandel." Reprinted on Kiel Institut media page: `https://www.kielinstitut.de/de/publikationen/eu-abkommen-mit-indien-klimapolitik-wird-zum-stolperstein-fuer-freihandel-19385/`.

[4] BBC World (26 Jan 2026), "India and EU set for 'mother of all deals' as Trump's tariff uncertainty looms." `https://www.bbc.com/news/articles/ckgyz1ejw9no`.

[5] Financial Times (Dec 2025), "EU-Mercosur deal signed but faces uncertain ratification path." `https://www.ft.com/content/eu-mercosur-signed-2025`

[6] Reuters (27 Aug 2025), "Trump's doubling of tariffs hits India, damaging ties." `https://www.reuters.com/world/india/trumps-doubling-tariffs-hits-india-damaging-ties-2025-08-27/`

[7] Reuters (24 Jan 2026), "Bessent hints at possible US tariff relief for India as Russian oil imports drop." `https://www.reuters.com/world/india/bessent-hints-possible-us-tariff-relief-india-russian-oil-imports-drop-2026-01-24/`

[8] Directorate-General of Commercial Intelligence and Statistics (India), "Quick View of India's Trade—2024" (Aug

tially, creating permanent efficiency gains from reduced trade barriers and regulatory alignment given the stakes are substantial for India. India's export volumes have reached record highs: total goods and services exports in FY 2024–25 were estimated at roughly $821 billion, with merchandise exports around $437 billion and services exports around $384 billion.[9] India's share in global merchandise exports remains modest at around 1.8%, but it has been rising steadily as the country pursues its "Make in India" and "Atmanirbhar Bharat" (self-reliant India) initiatives.[10]

The central message of this policy brief is straightforward: the EU–India FTA is primarily a strategic diversification and upgrading pact. Though the economic costs can rise if external pressures from the US mount, the agreement remains valuable regardless of the path the US-India trade relations take because the EU-India FTA permanently reorients supply chains and deepens integration between two of the world's largest democratic economies.

2 The Crisis Context: US Protectionism and EU Trade Strategy

Trade tensions between the United States and its traditional trade partners have escalated sharply since 2025. For India, this manifested in punitive tariffs of up to 50%, imposed over geopolitical disagreements regarding Russian oil imports.[11] An estimated 70% of India's exports to the US were subjected to these higher tariffs. These tariffs hit Indian textiles, auto parts, steel, gems, pharmaceuticals, and chemicals.

For the European Union, the threat of American protectionism has been equally pressing and has fundamentally shaped the urgency of concluding agreements such as the FTA with India. In early 2025, the US administration threatened tariffs on European goods in connection with disputes over Greenland's status and strategic resources. Though these specific measures were narrowly averted through diplomatic channels, the episode underscored that even the closest transatlantic allies are not immune from trade policy volatility. European manufacturers, who exported €531.6 billion in goods to the United States in 2024, have faced renewed uncertainty about market access and tariff escalation risks.[12]

This uncertainty has motivated a fundamental reassessment of the EU trade strategy. While the bloc's traditional reliance on multilateral frameworks and established partnerships is still central to the European policy, it is now being supplemented by an aggressive push to diversify trade relationships with major emerging economies. The European Commission has explicitly framed this as building "strategic autonomy" in trade: reducing dependence on any single partner while expanding commercial opportunities.

2025). https://dgciskol.gov.in/

[9] Government of India (PIB, 16 Apr 2025), "India's total exports during FY 2024–25 is estimated at US$ 820.93 Billion"; Reuters (15 Apr 2025), "India's March trade deficit wider than expected on high oil, gold imports."

[10] WTO Trade Profiles 2024.

[11] Reuters (Jan 24, 2026), "Bessent hints at possible US tariff relief for India as Russian oil imports drop." https://www.reuters.com/world/india/bessent-hints-possible-us-tariff-relief-india-russian-oil-imports-drop-2026-01-24

[12] Eurostat (11 Mar 2025), "Trade in goods with the United States in 2024."

To this uncertainty, the EU's response has been to accelerate trade agreements with partners who offer both commercial opportunity and strategic alignment. The EU–Mercosur agreement, signed in January 2026 after more than two decades of negotiations, is one pillar of this strategy. However, it immediately ran into political headwinds in the European Parliament. Last week, MEPs voted to seek a legal opinion from the European Court of Justice, a move that could delay ratification substantially and underscores how contested the agreement remains.[13]

The FTA with India represents a second pillar of the EU's trade diversification. Arguably, a more straightforward one. India offers what Mercosur does not: a deal with a large, democratic, market-oriented economy that faces none of the deforestation controversies complicating the South American agreement. Indian industry does not compete directly with European agriculture in the way Brazilian beef production does. Environmental concerns, while present (particularly around Carbon Border Adjustment Mechanism CBAM compliance), are manageable through technical cooperation rather than fundamental disputes over land use and climate policy.

For Brussels, the contrast between the two negotiations is instructive. The Mercosur deal, despite its enormous scale, may ultimately fail to achieve ratification—or succeed only after years of additional negotiation over side agreements and environmental protocols. The India deal, by contrast, can move forward relatively smoothly. This makes it all the more important as a demonstration that the EU's trade diversification strategy can actually deliver results.

On the European side, the market-access uncertainty has grown. The EU has progressively narrowed Generalized System of Preferences (GSP) preferences for India, and an updated list of product-section graduations applies for 2026–2028.[14] While estimates of the affected export value differ across stakeholders, the direction is clear: relying on unilateral preferences is becoming less reliable, strengthening the case for an FTA that locks in stable, treaty-based access. Previously, approximately 27% of India's exports to the EU enjoyed reduced tariffs under GSP. With India's "graduation" from the program, eventually up to 87% of Indian exports to the EU could face full MFN duties.[15]

3 The EU–India FTA: Key Provisions

The India–EU Free Trade Agreement reduces or eliminates tariffs on over 90–95% of tariff lines, making it one of the most comprehensive agreements either partner has concluded.[16]

European automobiles, wine, and spirits: India will lower its very high tariffs on imported

[13] Financial Times (21 Jan 2026), "EU lawmakers vote to delay Mercosur trade pact over legal concerns." https://www.ft.com/content/62819600-25bf-4881-800d-c215d394e44a

[14] European Commission (Access2Markets), "Generalised Scheme of Preferences: updates on country graduations (Regulation (EU) 2025/1909)."

[15] Economic Times (22 Jan 2026), "EU GSP suspension likely to hit India exports: GTRI." https://economictimes.indiatimes.com/news/economy/foreign-trade/eu-gsp-suspension-2026

[16] Reuters (23 Jan 2026), "India-EU free trade pact: What's agreed, what's at stake after years of talks." https://www.reuters.com/world/india-eu-fta-whats-at-stake-2026-01-23/

EU cars from 110% to 10% through phased reductions, subject to an import quota of 250,000 vehicles. Mercedes exported approximately 19,000 vehicles to India in 2025, BMW roughly 18,000, while VW has built local production and reached 117,000 sales.[17] Even with the quota, the phased reduction will significantly improve market access for European automakers seeking entry to the world's third-largest car market. India sold over 4 million passenger vehicles in 2024 and the market is growing rapidly as middle-class incomes rise.

Wine and spirits face similar barriers but receive significant reductions. India's duties on wine fall from 150% to 20–30%, spirits from 150% to 40%, and beer from 110% to 50%. Fruit juices, non-alcoholic beer, and processed foods such as pasta and chocolate become duty-free. While tariffs on alcoholic beverages remain substantial, the reductions will expand the consumer base considerably, benefiting French, Italian, and Spanish producers in particular.

Machinery and industrial goods: The EU's largest export category to India—machinery and electrical equipment, worth €16.3 billion in 2024—sees tariffs of up to 44% reduced to zero for most products. Medical devices (90% of products to zero tariff), chemicals (up to 22% reduced to zero for most), iron and steel (22% to zero for many products), and aerospace (up to 11% to zero for almost all products) also see comprehensive liberalization.

Indian textiles, apparel, and leather: EU tariffs of 8–12% will be eliminated, allowing Indian products to compete more evenly with Bangladesh and Vietnam, which already enjoy duty-free access through Everything but Arms (EBA) and bilateral agreements respectively. This matters enormously for India's textile sector, which employs approximately 45 million workers directly and another 60 million in related activities. The EU imports nearly $125 billion in textiles annually; India currently holds only 5–6% of that market compared to China's 30%.[18] Tariff elimination could significantly boost India's share.

Pharmaceuticals and chemicals: India is a leading producer of generic medicines ($23.4 billion in exports, 2024).[19] With chemical tariffs of up to 22% eliminated on most products, and reduced regulatory barriers, Indian pharmaceutical and chemical exports to Europe will receive a significant boost.

Agriculture: Politically sensitive products are excluded from tariff reductions on both sides. The EU maintains its tariffs on Indian beef, sugar, rice, chicken, milk powder, honey, bananas, wheat, garlic, and ethanol. However, India gains quota-based access for sheep and goat meat, sweet corn, grapes, cucumbers, dried onions, and rum. European geographical indications are not yet protected in India; a separate agreement remains under negotiation.

Services and professional mobility: A parallel India–EU mobility agreement for skilled workers and students accompanies the trade deal. The agreement opens India's services market further

[17] Table Briefings (27 Jan 2026), "Worauf sich die EU und Indien geeinigt haben." `https://table.media/europe/analyse/freihandelsabkommen-worauf-sich-die-eu-und-indien-geeinigt-haben`.

[18] Reuters (23 Jan 2026), "India-EU free trade pact: What's agreed, what's at stake." `https://www.reuters.com/sustainability/climate-energy/india-eu-free-trade-pact-whats-agreed-whats-stake-after-years-talks-2026-01-23/`

[19] DGCIS (India), "Quick View of India's Trade—2024" (Aug 2025). `https://dgciskol.gov.in/`

than any previous Indian trade deal, with particularly deep concessions in financial services. This substantially benefits India's IT and professional services exports (approximately $30 billion to Europe in 2024–25).[20]

Given that both the EU and India benefit from their trade agreement, challenges remain. India is also concerned about the EU's Carbon Border Adjustment Mechanism (CBAM).[21] The mechanism initially covers cement, electricity, fertilisers, iron and steel, aluminium, and hydrogen; after a transitional reporting phase, the financial adjustment starts in 2026 and is phased in gradually.[22] European product standards and certification requirements also present non-tariff barriers that will require ongoing dialogue.

4 KITE Model Simulations

To evaluate the economic effects of the EU–India FTA and related trade policy scenarios, we employ the KITE model (Kiel Institute Trade policy Evaluation). KITE is a state-of-the-art quantitative general equilibrium trade model with sectoral production linkages and bilateral trade costs (Hinz et al., 2025).

The KITE model belongs to the class of "new quantitative trade models" that have become the workhorses of trade policy evaluation over the past decade. These models capture how changes in tariffs and non-tariff barriers ripple through global production networks, affecting prices, production decisions, trade flows, and ultimately economic welfare. Unlike simpler partial equilibrium approaches that examine individual sectors in isolation, general equilibrium models account for the interconnections between sectors. For instance, when tariffs on steel change, this affects not only steel producers but also automobile manufacturers who use steel as an input, and construction firms who use both steel and vehicles, and so on through the economy.

The model is calibrated to reproduce observed patterns of trade, production, and input-output linkages across 65 sectors and all countries in the world. This granularity allows us to examine which industries gain or lose from policy changes, and to trace how shocks propagate through supply chains. For the EU–India analysis, this sectoral detail is particularly valuable as it allows us to separately analyze effects on textiles versus pharmaceuticals versus IT services, each of which faces different tariff and non-tariff barriers (NTB) structures.

We evaluate four scenarios that capture the range of plausible outcomes for India's trade relationships:

- **S1: The US Tariff Shock (Short-Run).** The US maintains a 50% ad-valorem tariff (level) on Indian merchandise exports with limited supply chain adjustment time.

[20] DGCIS (India), "Quick View of India's Trade—2024"; EU–India services trade statistics.

[21] On CBAM being perceived in India as a key friction point for the FTA and the concern that it raises effective costs particularly for steel/aluminium/fertilisers, see Langhammer (F.A.Z., 15 Jan 2026), `https://www.kielinstitut.de/de/publikationen/eu-abkommen-mit-indien-klimapolitik-wird-zum-stolperstein-fuer-freihandel-19385/`.

[22] European Commission, "Carbon Border Adjustment Mechanism (CBAM)"; Regulation (EU) 2023/956.

Table 1: Headline simulation results: real value added and trade flow changes (%)

Indicator	S1: US 50% Tariff (SR)	S2: US-India Deal (LR)	S3: EU-India FTA (LR)	S4: FTA + US Deal (LR)
EU value added (%)	0.02	0.01	0.13	0.12
India value added (%)	-1.64	-0.88	0.12	-0.71
India exports to EU (%)	1.0	2.7	41.0	44.9
India exports to USA (%)	-22.0	-26.5	1.0	-26.0
EU exports to India (%)	-2.7	-3.4	64.9	59.3
China exports to India (%)	-2.9	-3.7	-5.5	-8.9

Notes: SR = short-run; LR = long-run. Source: KITE model simulations.

- **S2: A US–India Deal (Long-Run).** US tariffs reduced to +15 percentage points; India reciprocally cuts tariffs on US capital goods by 5 percentage points.
- **S3: The EU–India FTA Only (Long-Run).** Bilateral tariff elimination between EU and India on most goods, with motor vehicles receiving a 50% tariff cut (approximating the quota-limited phased reduction from 110% to 10%). Agricultural products receive partial liberalization. NTB reductions of 3% (general), 5% (deep integration sectors such as chemicals, pharmaceuticals, and machinery), 8% (IT/professional/financial services).
- **S4: Combined (Long-Run).** EU–India FTA implemented alongside US–India deal.

We distinguish between short- and long-run scenarios to reflect supply chain flexibility. Supply chain flexibility captures the ability of the supply chains to respond to changes. Since the supply chain are slow to adjust in the short run, we multiply trade elasticities by 4 to capture reduced adjustment capacity. In the long run, we use standard elasticity estimates.

In what follows, we present our results in three parts: aggregate effects, trade re-orientation and de-risking, and the sectoral effects for India and the EU.

Aggregate Economic Effects

Figure 1 presents the core findings. US tariffs impose substantial costs on India, while the EU–India FTA generates mutual gains for both partners.

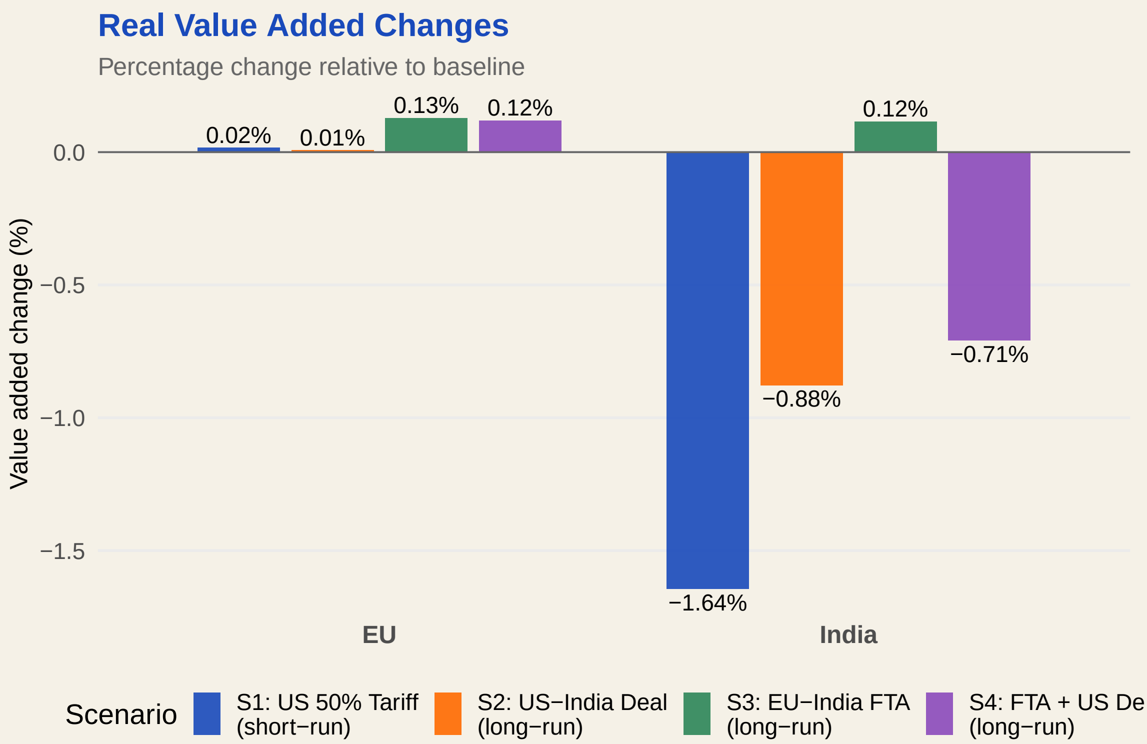

Figure 1: Real value added changes by scenario. US protectionism hurts India severely (S1: −1.64%); a US–India deal reduces but does not eliminate losses (S2: −0.88%); the EU–India FTA benefits both partners (S3: India +0.12%, EU +0.13%); the combined scenario (S4) cushions India's losses while preserving EU gains.

Quite obviously, the US tariffs are costly for India: The 50 percentage point tariff shock reduces India's real value added by 1.64% in the short run (over one year) versus the baseline. This totals to approximately $57 billion in foregone annual output. We simulate the Indian exports to the US to drop by 22-26% compared to the counterfactual without the tariffs. This magnitude is consistent with reduced shipments observed in the data. After the US imposed the August 2025 tariffs on India, Indian export values to the US fell by roughly 18–24% relative to shipments to other destinations.[23] Even if the US negotiates a trade deal with India for reducing the tariffs to 15 percentage points, it still results in a 0.88% GDP loss for India.

On the other hand, the EU–India FTA generates mutual gains. Under Scenario S3 (the EU-India FTA only), India gains 0.12% and the EU gains 0.13% in real value added. These numbers represent permanent structural benefits from deeper integration and billions of euros in annual output gains that will compound over time.

More importantly, these gains are *not* temporary trade diversion rents that would disappear if external circumstances change. The benefits persist because the FTA fundamentally changes the cost structure of EU–India trade through multiple channels: reduced transaction costs from tariff

[23] See Hinz et al. (2026), *America's Own Goal: Who Pays the Tariffs?* Kiel Policy Brief No. 201, Validation section (India case study).

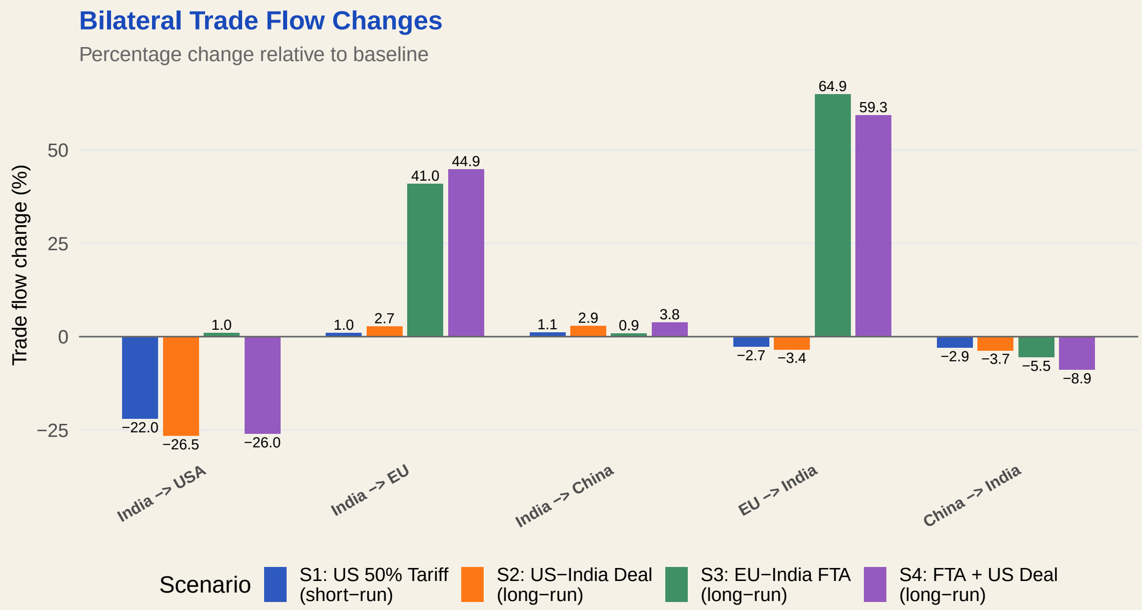

Figure 2: Bilateral trade flow changes across scenarios. US tariffs collapse India–US trade (-22% to -27%); the EU–India FTA redirects trade toward Europe (India→EU: +41%, EU→India: +65%) while reducing Chinese exports to India by 5–9%.

elimination, harmonized regulatory standards that lower compliance burdens, improved market access provisions that create new commercial opportunities, and deeper supply chain linkages that make bilateral commerce permanently more efficient.

To put these numbers in perspective: the EU's 0.13% gain translates to roughly €22 billion in additional annual output for an economy of €17 trillion. For India, the 0.12% gain represents approximately $4.2 billion annually for an economy approaching $3.5 trillion. These numbers are not one-time adjustments but permanent gains that will compound as years progress.

When we compare Scenario S4 to S2, it reveals the EU-India FTA's hedging value. India's losses shrink from -0.88% to -0.71%, approximately $6 billion saved in annual output. All while the EU's gains remain robust at 0.12%.

For the EU, this demonstrates that trade agreements with partners facing external pressure from the US can deliver strong commercial returns while advancing strategic objectives. The FTA succeeds regardless of how the US–India trade relations evolve.

Trade Reorientation and De-Risking

The EU-India FTA triggers substantial reallocation of trade flows. Figure 2 illustrates these shifts.

Under the FTA alone (Scenario S3), Indian exports to the EU surge by 41%, while EU exports to India rise by 65%. This asymmetry reflects India's higher initial tariffs as their removal creates proportionally larger price effects for EU exporters.

The most strategically significant finding is substantial trade diversion from China. Under this scenario, Chinese exports to India fall by 5.5%; combined with a US–India deal, they fall by 8.9%.

This matters enormously for both partners. India's trade deficit with China reached $94 billion in 2024, by far its largest bilateral imbalance and a persistent source of concern for Indian policymakers.[24] Critical sectors of India's economy depend heavily on Chinese inputs: electronics and telecom equipment (where Chinese components dominate supply chains), active pharmaceutical ingredients for India's generic drug industry, and industrial machinery and equipment for India's expanding manufacturing base.

This dependence has been a growing security concern in India, particularly since the 2020 border clashes between Indian and Chinese forces in the Himalayas that killed soldiers on both sides. The Indian government has sought to reduce reliance on Chinese inputs through various policy measures: banning Chinese mobile apps (including TikTok), tightening FDI screening for Chinese investors, and encouraging domestic alternatives under the "Atmanirbhar Bharat" initiative. Despite these efforts, however, cutting imports from China has proven extremely difficult. Chinese goods remain competitive on price and are deeply embedded in Indian supply chains. Imports from China continued growing approximately 10% in 2024, demonstrating the stickiness of these commercial relationships.[25]

The EU–India FTA offers a market-based mechanism for reducing Chinese dependence that complements India's policy-driven efforts. By granting the EU suppliers preferential access to the Indian market, the agreement makes European goods more competitive relative to Chinese alternatives. This is not about building walls against China through protectionist measures; rather, it is about building bridges to Europe that naturally redirect trade flows through the power of preferential treatment. The approach is WTO-compatible, market-driven, and sustainable.

For the European Union, this trade diversion aligns directly with the de-risking agenda that has become central to EU trade and industrial policy since 2022. European policymakers have grown increasingly concerned about the continent's economic dependence on China across multiple sectors: critical minerals, rare earths, pharmaceuticals, advanced manufacturing, and solar panels. The FTA with India offers concrete diversification: access to a market of 1.4 billion consumers with a rapidly growing middle class, a democratic partner with broadly aligned values on issues from rule of law to market economics, and a manufacturing base that can complement rather than compete with European industry in many sectors.

Sectoral Effects for India

Figure 3 shows the sectors experiencing the largest expansion in Indian exports to the EU.

IT and professional services: The 8% NTB reduction in services trade, combined with the parallel mobility agreement facilitating movement of professionals, substantially deepens India's

[24] DGCIS (India), "Quick View of India's Trade—2024": India's exports to China were $15.1 billion while imports from China hit $109.4 billion in 2024.

[25] DGCIS (India), "Quick View of India's Trade—2024": imports from China grew 9.8% year-on-year.

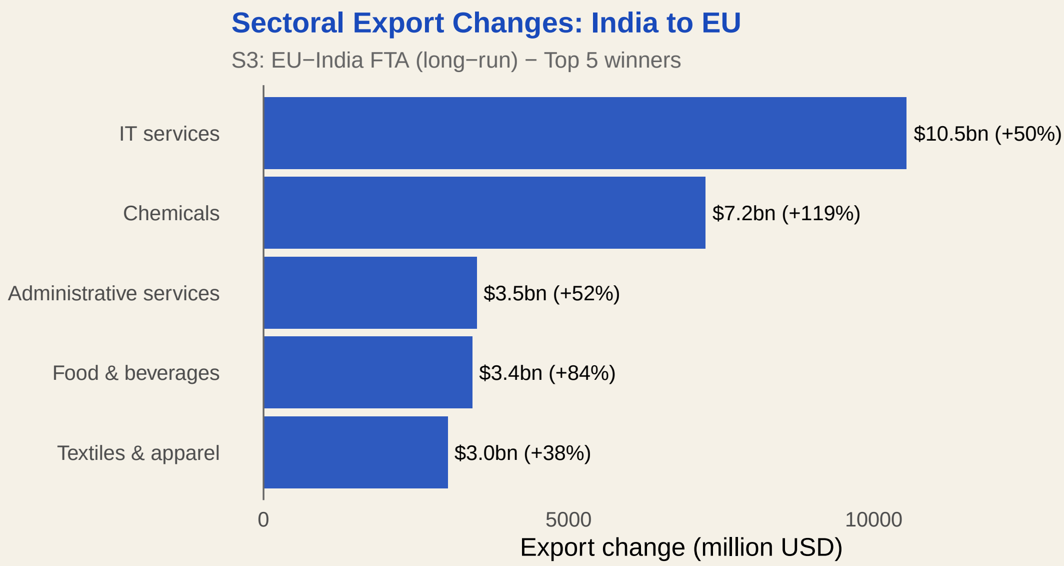

Figure 3: Top expanding sectors for Indian exports to the EU under the FTA (S3). IT services, chemicals, administrative services, food & beverages, and textiles benefit most.

comparative advantage in the European market. India is already a global powerhouse in IT services. The country ranked 5th in the world for digitally delivered services in 2024, exporting $269 billion globally.[26] But the European market has been more difficult to penetrate than the US due to regulatory barriers and restrictions on professional mobility. The EU-India FTA changes this equation fundamentally.[27]

Textiles and apparel: With EU tariffs of 8–12% eliminated, Indian garments become substantially more price-competitive, leveling the playing field with Bangladesh and Vietnam. Combined apparel exports totaled around $15.7 billion in 2024, and the sector remains a crucial employer, particularly of women in rural and semi-urban areas.[28]

Pharmaceuticals: India is the world's largest producer of generic medicines by volume. Tariff elimination combined with streamlined regulatory procedures and mutual recognition agreements will boost Indian pharmaceutical sales in Europe, building on the reputation Indian manufacturers gained during the COVID-19 pandemic when they supplied vaccines and treatments globally.

Sectoral Effects for the EU

Figure 4 shows the sectors experiencing the largest expansion in EU exports to the India.

Machinery and capital equipment: Industrial machinery and capital goods form a core Euro-

[26] Government of India, PIB, "2025 Year End Review—Department of Commerce" (10 Dec 2025). `https://www.pib.gov.in/PressReleasePage.aspx?PRID=2201284`

[27] For a concise discussion of India's relative strength in information and communication services (and why this matters particularly for Germany/EU even if goods trade remains smaller than with China), see Rolf Langhammer, "Handelspolitik: Wo Indien China voraus ist," Frankfurter Allgemeine Zeitung, 20 Jul 2023.

[28] DGCIS (India), "Quick View of India's Trade—2024": adding HS 61 and HS 62 categories.

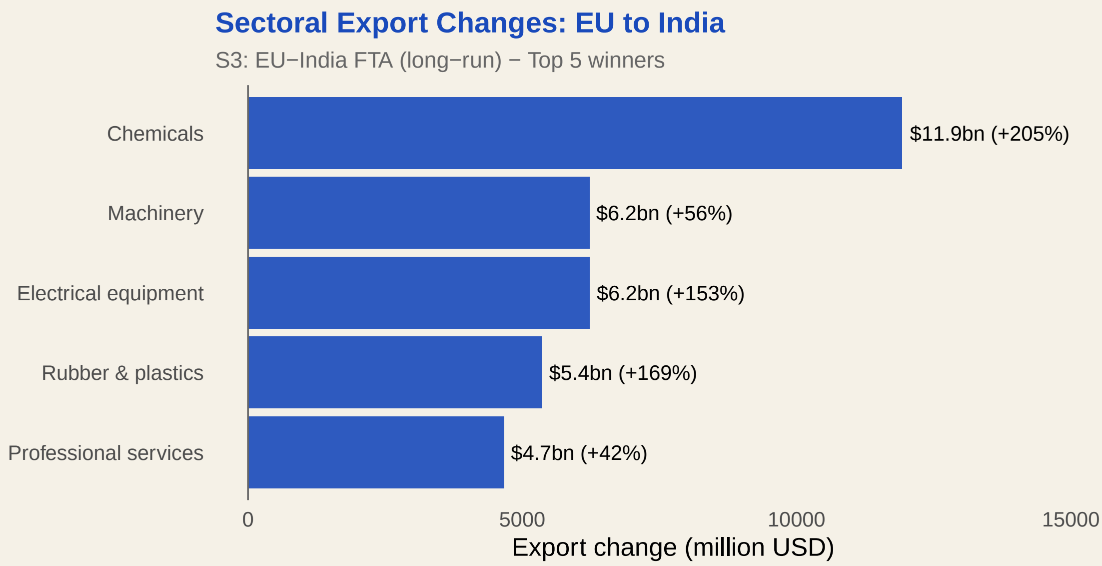

Figure 4: Top expanding sectors for EU exports to India under the FTA (S3). Chemicals, machinery, electrical equipment, rubber & plastics, and professional services benefit most.

pean export competency. India's rapidly expanding manufacturing base, driven by Production Linked Incentive (PLI) schemes and the Make in India initiative, increasingly demands precisely the sophisticated production equipment that German, Italian, and other European engineering firms produce. As India industrializes, the EU-India FTA positions European suppliers favorably.

Motor vehicles: Even a 50% tariff cut from India's prohibitive 100% base rate represents meaningful market opening. India sold over 4 million passenger vehicles in 2024, making it the world's third-largest car market. The premium European brands such as BMW, Mercedes-Benz, Volkswagen, Audi have long coveted greater access. The tariff reductions, while partial, will make European vehicles accessible to a much larger segment of India's growing middle class.

Chemicals and precision instruments: The EU has strong comparative advantage in high-value specialty chemicals, scientific instruments, and precision manufacturing. India's growing industrial and research base increasingly demands these sophisticated inputs.

Wine and spirits: While economically smaller than industrial categories, European wine and spirits producers gain meaningful access to India's expanding consumer market. India's middle class (estimated at 300–400 million people) has developed growing appetite for imported premium products.

5 Policy Implications

For the European Union

Prioritize rapid ratification. With EU GSP preferences for India narrowing further via product-section graduations in 2026–2028, every month of delay costs Indian exporters market share to competitors retaining preferential access—particularly Bangladesh under EBA and Vietnam under its bilateral FTA. Unlike Mercosur, the India agreement faces no significant environmental controversies and no major domestic opposition in member states against agricultural imports. The EU should capitalize on this favorable political environment by pursuing the fastest possible ratification timeline. The European Parliament and member state governments should treat this as a priority.

Prevent carbon pricing from becoming a barrier against the FTA. There is urgent need to coordinate the EU Carbon Border Adjustment Mechanism (CBAM) with the FTA in order to prevent CBAM from becoming a serious stumbling bloc for the Indian side against FTA implementation. CBAM has become effective on January 1, 2026. Indian exports of steel, aluminum, cement, and fertilizers are still predominantly produced from coal as the primary energy source with no domestic emission trading system (ETS) in operation and a carbon price comparable to the EU carbon price. EU importers of these products from India would have buy emission certificates forcing Indian producers to reduce their export price by about 25

Coordinate CBAM with FTA implementation. The Carbon Border Adjustment Mechanism launching definitively in 2026 affects Indian exports of steel, aluminum, cement, and fertilizers. These are significant export categories where Indian producers will need time to adapt to European carbon pricing by setting up and implementing their own ETS. The EU should ensure that CBAM implementation schedules are coordinated with FTA tariff phase-in periods to avoid sending contradictory signals—removing tariffs with one hand while imposing carbon levies with the other. Technical assistance to help Indian producers measure and reduce their carbon intensity would demonstrate that CBAM is just about emissions reduction and not abused as hidden protectionism as Indian producers see it so far..

Promote supply chain reorientation actively. The estimated 5–9% reduction in Chinese exports to India creates significant commercial space that European suppliers can fill. The EU should actively support private sector initiatives through trade promotion efforts via EU chambers of commerce, delegations in India, and targeted support for European SMEs that may lack resources to independently explore the highly differentiated Indian market can accelerate beneficial supply chain shifts. Widened EU foreign investment in India can strengthen such shifts.

Position India as the model for future agreements. The successful conclusion of the India FTA, in contrast to the troubled Mercosur process,demonstrates that the EU can deliver major trade deals with democratic partners efficiently while protecting EU standards of sustainability, environment and governance. This model can inform approaches to other strategic markets where the EU seeks to diversify: Indonesia, the Philippines, and potentially a revitalized negotiation with Australia.

For India

Sequence implementation thoughtfully. Sensitive sectors like automobiles and alcohol will receive only partial tariff cuts with extended phase-in periods. India should use this transition time productively to strengthen domestic industry competitiveness through investment, technology upgrading, and supply chain development—rather than simply delaying inevitable adjustment. The goal should be for Indian firms to emerge from the transition period able to compete effectively, not merely to postpone their exposure to competition. India should also envisage the opening of government procurement in public services like water supply and water management to EU companies in order to remove critical bottlenecks in public infrastructure.

Prepare exporters for EU requirements. Many Indian MSMEs (micro, small, and medium enterprises) lack the compliance infrastructure to meet European standards for product quality, environmental performance, and documentation. European product standards, sanitary and phytosanitary regulations, and certification requirements are significant non-tariff barriers that tariff elimination alone will not address. The government should expand capacity-building programs so that smaller firms can actually capture the market access benefits created by the FTA, rather than leaving gains concentrated among large corporates with existing export experience.

Leverage diversification strategically. The EU–India FTA is one component of a broader multi-directional trade strategy that India has pursued since the disruptions of 2025. The India–UK Comprehensive Economic and Trade Agreement was signed in July 2025, granting duty-free access to 99% of Indian exports to the UK;[29] the India–UAE CEPA (2022) has deepened Gulf ties; negotiations continue with Australia and the GCC. Demonstrating successful diversification away from reliance on any single major market improves India's bargaining position in all trade negotiations and provides genuine insurance against future shocks.

Plan for domestic adjustment. Trade liberalization creates losers as well as winners. Indian policymakers should proactively identify which sectors and regions will face increased import competition—particularly from European automobiles and processed foods—and develop adjustment assistance programs to support affected workers and communities. Transparent acknowledgment of adjustment costs, combined with real support programs, builds political sustainability for trade opening.

6 Conclusion

The EU–India Free Trade Agreement arrives at a moment of highest strategic relevance for both partners. The global trading system faces unprecedented strain: US protectionism has disrupted established commercial relationships, great power competition has elevated the importance of trusted partnerships, and supply chain restructuring following the pandemic and geopolitical shocks has made diversification imperative for economic resilience.

Our KITE model simulations demonstrate that the agreement creates lasting value for two highly complementary economies—the EU, a mature high-income bloc seeking new growth markets, and India, a rapidly expanding economy rich in human capital and reform momentum. Crucially, these gains materialise independently of external circumstances. This is perhaps the most important finding of our analysis. The structural gains from EU–India integration persist regardless of how US–India relations evolve, regardless of whether American tariffs are eventually

[29]Government of India, PIB, "2025 Year End Review—Department of Commerce" (10 Dec 2025).

reduced, and regardless of broader geopolitical developments. The FTA permanently reorients supply chains, mitigates both partners' dependence on China, and creates durable commercial links between two of the world's largest democratic economies.

For the European Union, the deal advances multiple objectives simultaneously. Commercially, it opens access to a rapidly growing market of 1.4 billion consumers at a time when European firms face uncertainty in access to traditional markets. Strategically, it demonstrates continued commitment to open, rules-based trade precisely when others are retreating into protectionism. Politically, it positions the EU as a leader in building trade relationships with major emerging economies without raising domestic political controversies —a welcome contrast to the troubled Mercosur process. .

The India FTA is thus more than just a commercial agreement. It is a statement about the kind of global economy the EU wants to build: one based on mutually beneficial trade with democratic partners built upon the rules of multilateralism and non-discrimination, supply chain diversification that reduces dangerous dependencies, and economic integration that creates shared prosperity rather than zero-sum competition.

For India, the agreement provides resilience against external shocks at a moment of acute vulnerability. The 2025 tariff crisis demonstrated painfully how exposed India's export-led growth model had become to American policy decisions. True, the EU FTA does not eliminate that exposure as the US remains a crucial market, but it substantially reduces it by deepening alternative commercial relationships. Beyond the hedging value, the agreement provides expanded market access for India's growing manufacturing and business services sectors, and an upgrade path for its export base as it moves up the value chain.

The numbers speak clearly: mutual welfare gains of 0.12–0.13% of GDP representing billions of euros in permanent annual output; bilateral trade expansion of 41–65% creating new commercial opportunities across dozens of sectors; trade diversion from China of 5–9% advancing both partners' de-risking objectives. These are neither marginal nor "once and for all" effects. They represent a meaningful and permanent strengthening of the EU–India economic relationship.

The window for conclusion is now open. The political momentum exists on both sides. The economic logic is compelling. Policymakers should move decisively to complete signing, ratification and implementation, demonstrating that democratic economies can cooperate effectively to defend and further a more resilient and prosperous trading system.

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