

The EU-India FTA is a net loss for India's Future

C. P. Chandrasekhar

Leaders of both parties to the recently finalised Free Trade Agreement between the European Union and India have hailed the deal as historic, with the European Commission President Ursula von der Leyen even hyping it as the “mother of all deals”. The FTA would see tariffs on trade between the two parties falling to zero in most cases and significantly in others, with the reductions coming into force partly on signing and partly over staggered deadlines going beyond 2030.

The message being sent out is that in a world where multilateral trading rules overseen by the World Trade Organisation are being openly flouted, especially by the United States, this “deal” between India and the EU group of nations (which together account for a quarter of the world's GDP and a quarter of world trade) represents history in the making.

It has taken close to two decades to arrive at this agreement since negotiations first began. Structuring an agreement that does not deliver asymmetric benefits to the two parties and hurt politically important sections and constituencies in each was obviously difficult. Opposition from farmers who are attuned to protection and subsidies in the EU and peasants who have been at the losing end of development driven by significant liberalisation of trade in their produce was inevitable. And given the unsuccessful struggle of consecutive Indian governments to expand India's manufacturing base, as reflected in the low share of manufacturing in GDP, reducing tariffs on imports of industrial products would likely damage even the limited capability it has built in the area. Not surprisingly, in an on-and-off process, negotiations continued with little enthusiasm.

A hurried deal

Despite that history, the last leg of negotiations that led to the deal was short and the outcome almost hasty. One obvious reason was that both parties to the deal were coming to terms with the aggression and uncertainty marking recent US trade policy under the Donald Trump administration. India, which has been named for being protectionist and for violating US-declared sanctions against Russia by importing oil from the latter, is among the nations currently subject to penal tariffs of 50 per cent on its exports to the US. And though the EU managed to placate Trump and secured a promise of tariffs in the 15 per cent range for most products it exports, that deal is being destabilised by Trump's adamant demand that Greenland be handed over to the US.

The impact of this US aggression has been a flurry of efforts across the globe to expand trade to partners beyond the US. Similar concerns in the EU and India clearly led to the lagging trade negotiations gathering new momentum and reaching completion barely 10 months after Trump's announcement of his decision to weaponise tariffs.

However, relative exposure through exports, overall and to each other, differs significantly between the EU and India. Extra-EU exports of goods and services from the European Union countries exceeds 20 per cent of their combined GDP, and when intra-EU trade is included, the figure rises to more than 50 per cent. India's exports too amount to more than 20 per cent of

GDP. But services, which are a major component of those exports, are unlikely to receive much of a boost from the trade agreement per se.

Further, in recent years India's exports to the EU have been on an uptrend, rising from around \$40 billion in 2020-21 to around \$75 billion in 2024-25. Since India's imports from the EU have not been as buoyant over those years, the trade balance between the two countries moved from near zero to a surplus of \$15.2 billion in India's favour. Also, the share of the EU market in India's exports stood at 17 per cent in 2024-25, whereas India accounted only for 9 per cent of exports from the EU. In sum, the EU can look to expanding its presence in India, while India was doing well in EU markets even before the "mother of all deals".

Net loss

When trading partners liberalise trade between themselves, the changed circumstances would influence the overall level of trade, the composition of exports and imports of each depending on the areas in which concessions have been provided by one to the other, and the balance of trade between the two. Both partners are unlikely to be winners or gain equally from the new arrangement. Further, within each country there would be workers and producers in some sectors who would be hurt by increased competition from cheaper imports. And, finally, the future direction of development would be shaped or even distorted by reduced protection for some sectors.

At a more granular level and viewed from the Indian side, there are broadly five noteworthy features of the deal as revealed. First, India hopes to register gains in labour-intensive sectors like textiles and leather, which were the sectors most affected by Trump's tariff aggression. Second, if the EU is willing to ignore the use by Indian firm of [Russian crude](#) for refining, and continue imports of the resulting hydrocarbon fuel from India, some big players are bound to benefit. Third, even though the Indian government, like the EU negotiators, claims that farmers have been protected through exclusion of [agricultural and dairy products](#) from the agreement, tariff reduction on processed food products exported by the EU can influence demand for staples and the dietary pattern in India.

Fourth, in areas like [automobiles](#), auto-parts and machinery, into which India has successfully diversified, reduced tariffs are likely to result in substantially enhanced imports and restriction or displacement of domestic production. And, fifth, the EU retains its right to use special tariffs like those to be imposed under the Carbon Border Adjustment Mechanism (CBAM) on carbon-intensive imports and to impose non-tariff restrictions on sanitary and phyto-sanitary grounds, that could restrict exports of goods like fish products and meat.

These features suggest that India would be a major net loser from an agreement which it does not need. Changes in the global trading environment and India's own limited reliance on goods exports to drive its economy make a case for India focussing on growing its domestic market in the pursuit of sustainable development. The FTA with the EU is, however, likely to limit expansion of the domestic market and production.

** This article was originally published in the Frontline on February 5, 2026.*