India–EU Free Trade Agreement (FTA) – A Strategic Milestone in a Fragmenting Global Trade Order

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India-EU Free Trade Agreement (FTA) Latest News

- At the India–EU Leaders' Summit, the Indian PM, European Council President António Luís Santos da Costa, and European Commission President Ursula von der Leyen announced the successful conclusion of **negotiations** of the India–EU Free Trade Agreement (**FTA**).
- The agreement marks a major breakthrough in the **India–EU Strategic Partnership**, especially at a time of global trade uncertainty, tariff wars, and supply chain disruptions.

Significance of the India-EU FTA

- India and the EU together account for approximately **25%** of global GDP and over one-third of global trade.
- The EU is India's second-largest export destination after the US.
- The FTA complements India's recent trade agreements with the **UK and European Free Trade Agreement (EFTA)**.

Key Components and Takeaways of the Agreement

- **Trusted strategic partnership:**
    - Based on shared democratic values, rule of law, and human rights, highlighting India's soft power, and diaspora diplomacy.
    - Strengthened by **people-to-people ties**, including 1.7 million Indian diaspora in the EU, and 1.21 lakh Indian students.
- **Economic complementarity, scale and diversity:**
    - India (4th largest economy) and EU (2nd largest economy) are complementary rather than competitive.
    - Market integration opens unprecedented trade and investment opportunities.
- **Trade diversification, supply chain resilience, and de-risking:** This will reduce excessive dependence on China-centric supply chains. It is critical amid US–China trade tensions and rising **weaponisation of trade**.
- **Commercially meaningful 'Win–Win' deal:**
    - **For India**, major gains in labour-intensive sectors such as textiles & clothing, gems & jewellery, and leather & footwear. These sectors face high EU tariffs, making the FTA economically significant.
    - **For the EU**, India is a large, fast-growing market with relatively higher tariffs, giving the EU a significant advantage vis-a-vis its competitors (with India-EU FTA).
- **Safeguarding sensitive agriculture, food security:** Core agriculture sectors excluded dairy, cereals, meat, select fruits and vegetables. This addresses concerns of farmers, a key political and electoral constituency.
- **Calibrated opening of the auto sector:**
    - EU automakers allowed entry primarily in higher price segments, encouraging Make in India, future exports from India.
    - Auto sector liberalisation will benefit Indian consumers from technology transfer and competition.
- **Carbon Border Adjustment Mechanism (CBAM), green protectionism:** Despite CBAM being a very sensitive and complex regulation, FTA provides most favoured treatment, dedicated technical dialogue, and EU support to India for climate transition.
- **Services as the future growth driver:**
    - Services are expected to dominate bilateral trade growth, promoting services trade, digital economy, and mobility of professionals.
    - **Key gains for India** are certainty of market access, non-discriminatory treatment, boost to digitally delivered services, ease of mobility and social security coordination, and greater penetration of Indian talent and students.
- **Living agreement with review mechanisms:**
    - Agreement designed as a "**living document**" includes periodic review clauses, consultation mechanisms for emerging technologies and regulations.
    - It relies on mutual trust and strong institutional stewardship.
- **Signal to global business and the US:**
    - Projects India as a supporter of open, fair, stable, rule-based trading order.
    - Sends a strong message amid tariff wars, protectionism, unilateral trade actions (including by the US), promoting multilateralism, and trade certainty.

Challenges and Way Forward

- **Managing adjustment costs:** In sensitive domestic sectors. Leveraging the FTA to boost manufacturing, services, and exports.
- **Aligning regulatory standards and compliance mechanisms:** Effective implementation with capacity-building support.
- **Addressing CBAM-related competitiveness concerns:** Using review mechanisms to adapt to technological and climate transitions.
- **Ensuring gains for MSMEs and small farmers:** Strengthening domestic competitiveness through reforms.

Conclusion

- The India–EU FTA is not merely a trade agreement but a strategic economic compact that reinforces India's commitment to openness, diversification, and rule-based global trade.
- By balancing market access with protection of sensitivities, and embedding flexibility through a living framework, the agreement positions India as a **reliable global economic partner** in an era of uncertainty—making it a landmark step in India's evolving **trade diplomacy**.

Source: IE
