

# What the India-EU FTA signals about bilateral ties, and the message it sends

India-EU FTA: 10 aspects of the deal you should know, from trade diversification to impact on the services sector.

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PM Modi with President of the European Council António Luís Santos da Costa and President of the European Commission Ursula von der Leyen. (Photo: X/@narendramodi)

**India-EU FTA:** Prime Minister Narendra Modi, along with visiting President of the European Council António Luís Santos da Costa and President of the European Commission Ursula von der Leyen, Tuesday (January 27) hailed the successful conclusion of negotiations of the landmark India-EU Free Trade Agreement (FTA).

“This historic deal is a milestone in the India-EU Strategic Partnership that will significantly enhance bilateral trade and investment ties, drive shared prosperity, strengthen resilient and diversified supply chains, and support sustainable and inclusive growth,” the joint statement after the India-EU leaders’ summit said.

The FTA has broadly 10 different components and takeaways — signalling trusted partnership to complementarity, trade diversification, safeguarding sensitive agriculture sectors, auto industry opening for high-end cars, services opening up, a living document open for review and changes, and a signal for the world, including the US led by President [Donald Trump](#).

## Trusted partnership

According to sources, the deal is reflective of a “trusted partnership” between India and EU with “shared ideals of democracy, respect for human rights, rule of law, enhanced by deep people-to-people connect and living bridge of 1.7 million strong diaspora and 1.21 lakh students”.

## Complementarity, scale and diversity

India and the EU are the fourth and the second largest economies, comprising 25% of Global GDP and more than one third of global trade. Integration of the two large diverse and complementary economies will create unprecedented trade and investment opportunities, sources said.

## Trade diversification and supply chain resilience

The EU FTA will complement the UK, EFTA deals and go a long way in India’s quest for trade diversification and supply chain resilience. This is specially important at a time when China and the US are posing challenges to India’s trade exports and imports.

## Win-win deal

The FTA is “commercially meaningful” for both partners, sources said. For India, the EU is the second largest export market after the US. The FTA is likely to yield substantial net gains for

India, particularly for industries that are labour intensive, such as textiles, clothing, gems and jewellery, and leather & footwear, where EU tariffs are high and imports significant.

For the EU, India is a large, fast-growing market with relatively higher tariffs, giving the EU significant advantage vis-a-vis its competitors.

## Safeguarding sensitivities

Core agriculture sectors such as dairy, cereals, meat and certain fruits and vegetables are excluded from the deal, respecting sensitivities on both sides, sources said. The leaders, including PM Modi, said the trade deal was beneficial for farmers, who form an important electoral constituency.

## Auto industry

Sources said that the “calibrated and carefully crafted auto-liberalisation package” will not only allow EU auto-makers to introduce their models in India in “higher price bands”, but also open the possibilities for Make in India and exports from India in future. Indian consumers benefit from high-tech products and greater competition, sources said.

## CBAM

Despite the **Carbon Border Adjustment Mechanism (CBAM) being a very sensitive** and complex regulation, sources said that the FTA opens the way for constructive engagement through most favourable treatment for India, a technical dialogue, and support from EU to India in future to tackle climate change.

## Services will be the future

Sources said that services will be a dominant and faster-growing part of both economies. Certainty of market access, non-discriminatory treatment, focus on digitally delivered services, ease of mobility, enabling of social security framework, and penetration of Indian talent through students will provide boost to India’s services exports.

## Living Agreement

Keeping in mind the multifarious objectives placed on trade, its dynamic nature, fast-evolving technologies and increasing regulatory complexities, the agreement embeds “multiple review,

consultation and response mechanisms to deal with “new, sudden challenges”. The Agreement relies on “strong stewardship” and trust to deliver gains for both sides, sources said.

## Signal for global business and the US

Sources said that this deal envisions an open, fair, stable, rule-based trading order as a Vision for India. The deal sends a strong signal among global businesses that India believes in openness, fair trade, and certainty sources said. This is significant at a time of tariff wars and weaponised trade.



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