STUDY NOTES · BASIC CONCEPT

What benefits would India get from FTA with European Union (EU)?

International Relations

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Background

The India-EU FTA, finalized on January 27, 2026, and hailed by Prime Minister Narendra Modi as the "mother of all deals," creates one of the world's largest free trade zones, covering nearly 2 billion people and 25% of global GDP.

This landmark pact, after nearly two decades of negotiations, is expected to significantly enhance India's economic landscape by boosting exports, attracting investments, and fostering job creation while providing a hedge against global trade uncertainties like U.S. tariffs under President Trump. Below is a comprehensive breakdown of the key benefits for India, based on official statements and analyses.

Enhanced Market Access and Export Growth

The FTA grants preferential access to over 99% of Indian exports by value into the EU market, eliminating or reducing tariffs on a wide range of goods. This is projected to increase Indian exports by ₹6.4 lakh crore (approximately $76 billion), particularly in labor-intensive sectors.
Tariffs up to 10% will be eliminated on nearly $33 billion worth of exports, benefiting industries like textiles, apparel, leather, footwear, marine products, gems and jewellery, handicrafts, engineering goods, automobiles, pharmaceuticals, and electronics. For instance, gems, jewellery, and plastics will face zero tariffs.

Overall, this positions India as a more competitive global supplier, integrating it deeper into international value chains and offsetting potential losses from U.S. tariffs.

Boost to Manufacturing and Services Sectors

Manufacturing: Reduced tariffs on EU imports like machinery, technology, and intermediate goods will modernize Indian factories, enhancing productivity and supporting initiatives like "Make in India." Sectors such as automobiles, engineering, and renewables stand to gain from technology transfers and joint ventures.
Services: The deal opens EU markets for Indian IT, software, financial, maritime, and professional services, with provisions for mutual recognition of qualifications. This could significantly increase service exports and opportunities for skilled professionals, students, and workers.
Green sectors like steel, aluminum, and renewable energy will benefit from European investments, leveraging India's lower costs and growing market while aligning with climate goals.

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Investment Inflows and Investor Confidence

The agreement is expected to attract substantial foreign direct investment (FDI) from Europe, with commitments potentially mirroring those in other FTAs (e.g., $100 billion from EFTA). PM Modi highlighted that it signals stability, boosting investor confidence amid global challenges.
It includes €500 million in EU support over two years for India's greenhouse gas reduction efforts, fostering sustainable investments. This could create high-value jobs, drive innovation, and position India as a hub for global talent.

Job Creation and Support for MSMEs, Women, and Youth

The FTA is projected to generate millions of jobs, particularly in labor-intensive sectors, benefiting workers, artisans, women, youth, MSMEs, fisherfolk, and farmers. Enhanced export opportunities and value-chain integration will empower smaller businesses and create employment in high-growth areas.

Consumer Benefits and Cheaper Imports

Indian consumers will gain from reduced prices on European imports: Luxury cars (e.g., Mercedes, BMW) with duties slashed from 110% to 10-40% over time; wines from 150% to 20%; medicines for cancer and critical illnesses; and advanced medical equipment. This improves access to high-quality products and healthcare technologies.

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Geopolitical and Strategic Advantages

The deal strengthens India-EU ties, providing an economic hedge against U.S.-China trade tensions and diversifying trade partners. It aligns with India's multi-aligned foreign policy, enhancing global competitiveness and security in an unstable world.

The agreement is set to enter force by early 2027, with full benefits unfolding over time. While sensitive sectors like dairy and small cars are protected, realizing these gains will depend on domestic reforms in regulations and infrastructure. This FTA marks India's largest trade pact, potentially transforming its economy toward becoming a developed nation by 2047.