

Research Article

India-EU Free Trade Agreement: Estimating Its Effects on Bilateral Trade, Sectoral Opportunities and Risks

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Abstract: The conclusion of negotiations for the India-European Union Free Trade Agreement (India-EU FTA) on 27 January 2026 represents a major development in bilateral economic relations and creates a new framework for trade liberalisation between two large and increasingly interconnected economies. This study examines the agreement's prospective effects on bilateral merchandise trade, identifies sector-specific export opportunities for India and evaluates potential risks from increased import competition, regulatory requirements, adjustment pressures and trade diversion. The study adopts an ex-ante empirical assessment framework combining secondary trade data, tariff-liberalisation information, sectoral trade exposure analysis and evidence from the European Commission's Trade Sustainability Impact Assessment. The analysis finds that the agreement provides particularly significant opportunities for India's textiles and apparel, leather and footwear, pharmaceuticals, chemicals, marine products, gems and jewellery, agricultural and processed-food products. The agreement provides preferential access across approximately 97% of EU tariff lines covering about 99.5% of India's export value, while substantial Indian tariff liberalisation will improve European access to the Indian market. Existing modelling undertaken for the EU-India negotiations indicates that, under an ambitious scenario, India's merchandise exports to the EU could increase substantially, with particularly strong effects in textiles, leather and selected manufacturing sectors. However, the benefits are unlikely to be uniform. Indian producers may face intensified competition from European machinery, automobiles, chemicals, medical equipment, pharmaceuticals and other technology-intensive products. The study also highlights the importance of non-tariff measures, rules of origin, standards, sustainability requirements, carbon-related regulation and firms' capacity to utilise preferential access. The paper concludes that the economic effects of the FTA will depend not merely on tariff elimination but on India's ability to convert preferential market access into effective market utilisation through productivity enhancement, standards compliance, logistics improvement, export finance, technological upgrading and MSME integration into European value chains. Because the India-EU FTA negotiations concluded on 27 January 2026 but the European Commission was still seeking Council authorisation for signature and conclusion in September 2026, the paper should explicitly be presented as an ex-ante assessment rather than an ex-post causal evaluation.

Keywords: India-EU FTA, Bilateral Trade, Tariff Liberalisation, Trade Creation, Trade Diversion, Sectoral Opportunities, Trade Risks, Gravity Model, Services Trade, MSMEs

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INTRODUCTION

The international trading environment has undergone significant transformation during the last decade as countries increasingly combine multilateral trade commitments with bilateral and regional trade agreements. Against this background, the India-European Union Free Trade Agreement represents an important development in India's external trade strategy and the European Union's engagement with one of the world's largest and fastest-growing economies. The European Union is already one of India's most important trading partners. According to the European Commission, EU-India merchandise trade exceeded €118 billion in 2025, comprising approximately €69.5 billion of EU imports from

India and €48.9 billion of EU exports to India. Bilateral services trade was provisionally above €67 billion in 2025. The Indian Ministry of Commerce reports that India-EU merchandise trade amounted to approximately US\$136.54 billion in 2024-25, with Indian exports of US\$75.85 billion and imports of US\$60.68 billion [1].

The negotiations have a long history. India and the EU initiated negotiations in 2007, suspended them in 2013 and formally relaunched negotiations in June 2022. After an accelerated negotiation process, the two sides announced the conclusion of FTA negotiations on 27 January 2026. The negotiated agreement provides substantial tariff liberalisation. The European Commission states that the agreement will eliminate or reduce tariffs covering 96.6% of EU goods exports to India, while India's Department of Commerce reports preferential access to the EU market across approximately 97% of tariff lines covering 99.5% of India's export value [2]. The economic significance of the agreement extends beyond tariff reduction. It includes provisions relating to trade in goods, services, customs and trade facilitation, sanitary and phytosanitary measures, technical barriers to trade, intellectual property, digital trade-related issues, trade remedies, sustainable development and professional mobility.

The agreement therefore raises an important research question: To what extent can the India-EU FTA expand bilateral trade and create sector-specific opportunities for India and what risks could arise from deeper market integration? This question is particularly important because tariff liberalisation does not automatically translate into export growth. Firms must possess the productive capacity, technological capability, quality certifications, logistical infrastructure and financial resources necessary to utilise preferential market access. The International Labour Organisation similarly notes that India's ability to realise employment benefits from labour-intensive exports will depend on export finance, testing and certification infrastructure, logistics, skills and compliance with international standards.

Accordingly, this study develops an ex-ante framework for assessing the likely trade effects of the India-EU FTA, with particular emphasis on bilateral trade, sectoral opportunities and risks.

Background of India-EU Trade Relations

India and the EU have developed a substantial commercial relationship encompassing merchandise trade, services, foreign direct investment and increasingly integrated value chains.

In 2025, EU imports from India amounted to approximately €69.5 billion, while EU exports to India were approximately €48.9 billion. Over the preceding decade, EU imports from India increased substantially faster than EU exports to India (Table 1).

The composition of bilateral trade indicates considerable complementarity. India's exports to the EU include chemicals, machinery and electrical products, textiles, mineral products, base metals, footwear and other manufactured products. EU exports to India are concentrated in machinery and electrical equipment, transport equipment, chemicals, medical and optical equipment and other technology-intensive products.

This structure is important for understanding the potential effects of the FTA. India may obtain increased access to a high-income consumer market, while European producers obtain improved access to India's rapidly expanding market for capital goods, technology, consumer products and services.

India-EU FTA: Major Features

The agreement represents extensive tariff liberalisation on both sides.

The European Commission reports that India will eliminate tariffs on approximately 86% of tariff lines, representing 93% of EU export value, while further partial liberalisation raises overall coverage. The EU, in turn, will eliminate tariffs on more than 90% of tariff lines, representing approximately 91% of trade value, with additional partial liberalization [3].

India's Department of Commerce provides a somewhat different presentation based on India's export interests: approximately 70.4% of tariff lines covering 90.7% of India's exports receive immediate duty elimination, while additional products receive phased elimination or preferential treatment (Table 2).

The agreement also contains safeguards and trade-remedy provisions. Temporary measures may be applied where a significant increase in preferential imports causes or threatens serious injury to domestic industries.

Table 1: India-EU Trade Indicators

Indicator	Latest reported value
EU-India goods trade, 2025	>€118 billion
EU imports from India, 2025	€69.5 billion
EU exports to India, 2025	€48.9 billion
EU-India services trade, 2025	>€67 billion
EU FDI stock in India, 2024	€132.8 billion
European companies present in India	Approximately 6,000

Source: European Commission and Council of the European Union

Table 2: Major Market-Access Provisions

Dimension	India	EU
Overall tariff liberalisation	Extensive	Extensive
Key beneficiary sectors	Textiles, apparel, leather, footwear, chemicals, pharmaceuticals, marine products	Machinery, chemicals, pharmaceuticals, automobiles, medical equipment, agri-food
Services	Increased access and professional mobility	Increased access to Indian market
Customs	Greater transparency and facilitation	Greater transparency and facilitation
SPS/TBT	Greater regulatory cooperation	Continued EU safety requirements
Trade remedies	Safeguard mechanisms	Safeguard mechanisms
Sensitive sectors	Agriculture and selected products	
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Sensitive sectors	Agriculture and selected products	Agriculture and selected products

LITERATURE REVIEW

Theoretical Foundations of Trade Agreements

The theoretical literature on international trade provides the foundation for examining the effects of free trade agreements (FTAs) on bilateral trade flows. The gravity model, originally associated with Tinbergen (1962) and subsequently developed through theoretical contributions by Anderson [4] and Anderson and van Wincoop [5], explains bilateral trade largely in terms of the economic size of trading partners and the costs associated with international trade. Larger economies generally trade more with one another, whereas geographical distance and other forms of trade costs tend to reduce bilateral trade.

Anderson and van Wincoop [5] advanced the gravity framework by incorporating multilateral resistance terms, demonstrating that bilateral trade cannot be analysed independently of countries' trade relationships with the rest of the world. This theoretical development is particularly relevant to an India-EU FTA because preferential tariff reductions alter bilateral trade costs while India's and the EU's simultaneous relationships with third countries can influence the magnitude of trade creation and trade diversion.

Baier and Bergstrand [6] subsequently demonstrated the importance of addressing the endogenous nature of FTAs in estimating their trade effects. Their analysis indicates that countries entering FTAs may already possess characteristics associated with greater trade, meaning that simple comparisons of trade before and after an agreement can overstate the agreement's effect. This finding supports the use of panel-data methods, country-pair fixed effects and appropriate identification strategies in empirical research on the India-EU FTA.

The empirical methodology for gravity analysis was further strengthened by Santos Silva and Tenreyro [7], who demonstrated that log-linear ordinary least squares estimation can produce biased estimates in the presence of heteroskedasticity. They proposed Poisson Pseudo-Maximum Likelihood (PPML) estimation as an alternative. This approach is particularly relevant for the present study because bilateral trade datasets contain zero-trade observations and substantial heteroskedasticity.

Empirical Literature on India-EU Trade Integration

Research specifically examining India-EU trade integration has developed considerably over the last two decades, reflecting the prolonged negotiations over a bilateral trade agreement.

Herzog and George [8] examined the potential economic implications of an EU-India FTA using an extended gravity model covering existing FTAs involving India. Their analysis, based on data for 1990-2008, reported a significant positive relationship between FTAs and bilateral trade. The study provided early econometric evidence supporting the possibility that a formal India-EU agreement could increase bilateral trade. However, the study predates the substantial transformation in India's trade structure, global value chains, digital services and the eventual 2026 conclusion of negotiations.

Loganathan *et al.* [9] examined India-EU trade integration using a structural gravity framework. Their research was motivated by the prolonged failure to conclude the earlier proposed Bilateral Trade and Investment Agreement (BTIA). The study analysed India's trade relationship with EU-27 countries and considered the potential consequences of a regional trade agreement. The authors' use of a structural gravity approach is particularly relevant because it enables researchers to examine not only bilateral trade effects but also broader trade implications arising from changes in trade costs.

Singh [10] provides more recent evidence using a panel-data gravity approach comparing India's trade relationships with the European Union and ASEAN. Using annual data for 1996-2014, the study examines variables including GDP, population, geographical distance and FTA status. The findings provide empirical support for the relevance of gravity-model variables in explaining India's trade relationships with regional trading blocs. However, because the data end in 2014, the study cannot capture the substantial changes in India-EU trade relations or the final 2026 FTA provisions.

These studies collectively establish the relevance of gravity-based approaches for analysing India-EU trade but also reveal a temporal gap. Much of the earlier empirical literature evaluates a proposed agreement rather than the final negotiated agreement concluded in January 2026.

Literature on Tariff Liberalisation and India's Export Sectors

A particularly important strand of literature examines how tariff reductions under an India-EU agreement could affect India's major export sectors. Khorana and Narayanan [11] used a global Computable General Equilibrium (CGE) model based on the Global Trade Analysis Project (GTAP) framework to investigate the effects of tariff liberalisation under the proposed EU-India FTA. They considered two scenarios: Comprehensive tariff elimination and selective tariff elimination in textiles, wearing apparel and leather products. Their research is significant because it moved beyond aggregate bilateral trade and considered the differential effects of liberalisation across sectors.

The importance of sectoral analysis is further supported by the European Commission's Trade Sustainability Impact Assessment (SIA). The SIA examined the potential economic, social, environmental and human-rights implications of the proposed India-EU agreements. It combined quantitative modelling with qualitative assessment and stakeholder consultation.

The SIA is particularly relevant to the present study because it demonstrates that the effects of an India-EU agreement are unlikely to be uniform across sectors. India's labour-intensive export sectors, including textiles, apparel and leather, can potentially gain from improved European market access, while sectors exposed to European capital-intensive and technology-intensive products may face stronger competitive pressures. The literature therefore suggests that aggregate bilateral trade growth may conceal significant sectoral redistribution of gains and adjustment costs.

Services Trade and the India-EU FTA

Services represent a particularly important component of India-EU economic relations because India's comparative advantages increasingly extend beyond merchandise exports.

Nordås [12] provides one of the most detailed quantitative analyses of services under the proposed India-EU FTA. The study uses the OECD Services Trade Restrictiveness Index (STRI) simulator to estimate preference margins and subsequently applies a general-equilibrium structural gravity model. The study estimates that the proposed agreement could substantially increase bilateral services exports, with India's services exports to the EU estimated to rise by approximately 50%, while EU services exports to India could almost double under the modelled scenario. The study also identifies telecommunications regulation as an important area affecting services trade.

This finding is important because it suggests that an analysis focused exclusively on merchandise tariffs may underestimate the broader economic significance of the India-EU agreement.

Dash and Bhattacharjee [13] similarly examined opportunities and challenges for India in services trade under a prospective India-EU FTA. Their analysis combines quantitative and qualitative approaches and highlights differences across services subsectors, trading partners, modes of supply and regulatory barriers. The study argues that the potential benefits of an FTA depend not simply on removing formal trade barriers but also on regulatory conditions and India's ability to diversify services exports.

More recently, Dash and Bhattacharjee [14] analysed the India-EU FTA using revealed comparative advantage indicators and gravity modelling with disaggregated services data covering 2010-2019. Their analysis identifies differences across services sectors and estimates potential gains from EU services liberalisation for India. The study also emphasises complementary benefits associated with global value-chain integration, servicification of manufacturing, investment and technology flows.

The emerging literature therefore indicates that services should be incorporated into a comprehensive assessment of the India-EU FTA rather than treating the agreement solely as a merchandise-trade arrangement.

Non-Tariff Measures and Regulatory Barriers

Although tariff reductions are central to FTAs, the effectiveness of preferential market access depends increasingly on Non-Tariff Measures (NTMs).

For India-EU trade, this issue is particularly significant because the European market operates under extensive technical, sanitary, environmental and product-safety regulations. Consequently, Indian exporters may receive preferential tariff treatment but still face substantial costs associated with certification, testing, product standards, traceability and regulatory compliance.

The European Commission's SIA explicitly incorporates economic, social and environmental effects rather than limiting its analysis to tariff changes. Its methodology recognises that regulatory and sustainability-related measures can influence the distribution of gains from trade liberalisation.

The importance of regulatory barriers is also evident in the services literature. Nordås [12] finds that domestic regulatory reform accounts for a significant proportion of the predicted expansion in services trade. Thus, trade liberalisation should be interpreted broadly as a combination of tariff preferences and regulatory conditions rather than simply customs-duty reductions.

This perspective is particularly important for India's MSMEs, which may have less capacity than large corporations to absorb certification and compliance costs.

Trade Creation, Trade Diversion and Welfare Effects

Another major theme in the FTA literature concerns the distinction between trade creation and trade diversion.

Trade creation occurs when tariff liberalisation causes consumers and firms to substitute toward relatively efficient imports from the FTA partner. Trade diversion, in contrast, occurs when preferential treatment shifts imports away from a more efficient third-country supplier toward an FTA partner.

Baier and Bergstrand [15] demonstrate why the identification of FTA effects requires careful econometric treatment. The existence of an agreement does not necessarily imply that all subsequent increases in bilateral trade are caused by the agreement itself.

This issue is highly relevant to the India-EU FTA because both India and the EU have extensive trade relationships with third countries. Any increase in bilateral India-EU trade should therefore be assessed alongside changes in India's trade with other major partners.

The European Commission's SIA adopts a broader approach by assessing not only bilateral economic effects but also effects on other countries and sectors.

For the proposed study, this suggests that the impact assessment should incorporate a measure of trade intensity or trade diversion rather than examining only the growth of India-EU bilateral trade.

Recent Literature and the 2026 India-EU FTA

The recent literature is particularly important because the India-EU FTA negotiations were formally concluded on 27 January 2026. The European Commission records that negotiations were relaunched in June 2022 and concluded in January 2026.

The final agreement provides substantial tariff liberalisation. According to the European Commission, the EU will eliminate tariffs on more than 90% of tariff lines, representing 91% of trade value, while India will eliminate tariffs on 86% of tariff lines, representing 93% of trade value; additional partial liberalisation increases the overall coverage further.

This development changes the research environment substantially. Earlier studies examined a proposed or hypothetical agreement, whereas future research can assess the specific provisions contained in the final negotiated agreement.

The latest literature also demonstrates increasing interest in sector-specific effects. ICRA's 2026 sectoral assessment, for example, evaluates Indian industries in terms of opportunities and challenges following conclusion of the agreement. While such industry assessments are useful for understanding commercial implications, they do not replace systematic econometric analysis based on bilateral trade data.

Synthesis of Existing Literature

Literature segmentation present in Table 3.

Table 3: Literature Segmentation

Literature stream	Representative studies	Main contribution	Remaining limitation
Gravity and FTA effects	Anderson and van Wincoop [5]; Baier and Bergstrand [6]; Herzog and George [8]	Explains bilateral trade and FTA effects	Earlier data; limited final-FTA evidence
India-EU merchandise trade	Loganathan <i>et al.</i> [9]; Khorana and Narayanan [11]	Estimates trade and sectoral effects	Predates final agreement
Services trade	Nordås [12]; Dash and Bhattacharjee [13]; Dash and Bhattacharjee [14]	Examines regulatory and services effects	Earlier agreement assumptions/data
Sustainability and sectoral effects	European Commission [18]	Economic, social and environmental effects	Scenario-based ex-ante assessment

Research Gap

Existing literature has three important limitations.

- **First:** Much of the earlier India-EU literature examined the agreement when negotiations were incomplete. The final negotiated outcome announced in January 2026 contains specific tariff schedules and market-access provisions that warrant a new assessment
- **Second:** Previous studies frequently emphasised aggregate GDP or trade effects. Less attention has been given to the interaction between sector-specific tariff exposure, export capacity and import competition
- **Third:** The distinction between preferential market access and effective market utilisation requires greater attention. Tariff preferences may be economically valuable only when firms can satisfy rules of origin, product standards, certification, sustainability requirements and other regulatory conditions

This paper addresses these gaps by integrating aggregate trade evidence with sector-level opportunity and risk analysis.

Research Questions

RQ1 : How has India-EU bilateral trade evolved in the period preceding the FTA?

RQ2 : What changes in market access are likely to affect bilateral trade most strongly?

RQ3 : Which Indian sectors possess the greatest potential to expand exports to the EU?

RQ4 : Which Indian sectors are most exposed to increased competition from EU producers?

Objectives of the Study

The study has the following objectives:

- To examine the existing pattern and growth of India-EU bilateral trade
- To assess the potential impact of the India-EU FTA on bilateral merchandise trade
- To identify Indian sectors with substantial export opportunities under the agreement
- To assess sectors that may face increased import competition

RESEARCH METHODOLOGY

The study adopts an ex-ante mixed quantitative-qualitative research design.

The quantitative component examines:

- Bilateral trade trends
- Sectoral trade composition
- Tariff liberalisation
- Trade exposure
- Existing model-based estimates of FTA effects

The qualitative component evaluates:

- Regulatory barriers
- Standards
- SPS/TBT requirements
- Rules of origin

Data Sources

The proposed empirical dataset should combine:

- Eurostat
- India Ministry of Commerce and Industry
- DG Trade, European Commission
- UN Comtrade
- World Integrated Trade Solution (WITS)
- World Bank World Development Indicators
- CEPII gravity database
- WTO tariff and trade databases
- OECD services and regulatory indicators

The current analysis uses official India and EU sources for the latest agreement provisions and trade values. The European Commission reports 2025 goods trade of more than €118 billion, while India's Ministry of Commerce reports 2024-25 merchandise trade of US\$136.54 billion [16,17].

Empirical Model for Future Econometric Estimation

For a journal submission involving original econometric estimation, the following PPML gravity model is recommended:

$$\text{Trade}_{ijt} = \exp [\beta_1 \text{FTA}_{ijt} + \beta_2 \ln \text{GDP}_{it} + \beta_3 \ln \text{GDP}_{jt} + \beta_4 \ln \text{Dist}_{ij} + \gamma_{ij} + \delta_{it} + \theta_{jt}] \epsilon_{ijt}$$

Where:

Trade_{ijt} = Bilateral exports from country *i* to country *j*

FTA_{ijt} = FTA treatment variable

GDP = Economic size

Dist = Bilateral geographical distance

γ_{ij} = Country-pair fixed effects

δ_{it} = Exporter-year fixed effects

θ_{jt} = Importer-year fixed effects

PPML should be preferred to log-linear OLS because of heteroskedasticity and the presence of zero trade flows.

Sectoral Model

A second model can estimate the sector-specific effect:

$$X_{s,t}^{\text{India-EU}} = \alpha + \beta \text{TariffPreference}_{s,t} + \gamma \text{RCA}_{s,t} + \delta \text{NTB}_s + \lambda \text{Controls} + \epsilon_{s,t}$$

Where:

X_s = Sectoral exports

$\text{TariffPreference}_s$ = Reduction in EU tariff applicable to Indian exports

RCA_s = Revealed comparative advantage

NTB_s = Non-tariff barrier intensity

Sectoral Export Opportunities for India

The agreement provides particularly important opportunities for Indian exporters in labour-intensive and export-oriented industries.

Textiles and Apparel

Textiles and apparel represent one of the most significant opportunities. India has a large production base, established export capacity and substantial employment in the sector. The Indian government indicates that textiles and apparel receive immediate duty elimination across the relevant tariff lines.

The potential benefits include:

- Greater price competitiveness
- Increased market share
- Expansion of MSME exports
- Increased European sourcing from India
- Greater integration into European value chains

However, European environmental, labour, traceability and product standards may constrain smaller firms that lack certification and compliance capabilities.

Leather and Footwear

Leather and footwear represent another labour-intensive opportunity.

The Indian Department of Commerce reports immediate duty elimination for the relevant leather and footwear exports.

Potential effects include:

- Greater competitiveness against alternative Asian suppliers
- Expansion of export-oriented manufacturing
- Employment generation
- Increased investment in production capacity

The principal risk concerns compliance with environmental and sustainability requirements associated with leather production

Chemicals

Chemicals are already an important component of India's exports to Europe.

The agreement provides substantial tariff liberalisation, while European exporters will simultaneously obtain improved access to India.

This creates a two-sided effect:

- **Opportunity:** Indian pharmaceutical and chemical producers can expand European exports
- **Risk:** Indian domestic chemical manufacturers may face stronger competition from technologically advanced European producers

Pharmaceuticals

Pharmaceuticals offer significant opportunities because India possesses established production and export capabilities.

The European Commission identifies pharmaceuticals among sectors benefiting from tariff liberalisation.

The principal constraint is that tariff preferences do not eliminate regulatory approval, quality and pharmaceutical standards.

Consequently, the FTA should be understood as improving market access, rather than guaranteeing increased pharmaceutical exports.

Marine Products

Marine products receive significant preferential treatment under the agreement.

The Indian government specifically identifies marine products as an important beneficiary sector.

The opportunity is potentially significant because the EU represents a large high-income market. However, exporters remain subject to strict food safety, traceability, sanitary and phytosanitary requirements.

Agriculture and Processed Food

The agreement provides preferential access for selected Indian agricultural and processed food products, including tea, coffee, spices, grapes, vegetables and selected processed foods.

Potential benefits include:

- Higher export revenues
- Greater value addition
- Improved farmer-market linkages
- Increased processed-food exports

Nevertheless, SPS compliance represents a major determinant of actual export performance.

Gems and Jewellery

India's established gems and jewellery industry may benefit from improved tariff access.

The Indian government reports that a large proportion of relevant exports receive immediate or preferential access.

Potential benefits include:

- Improved price competitiveness
- Higher export volumes
- Greater integration with European luxury markets

Potential Import-Competition Risks

The FTA is not exclusively an export opportunity for India. Greater access to the Indian market for EU products can increase competitive pressure on Indian producers.

Machinery and Electrical Equipment

Machinery and electrical equipment represent one of the largest EU export categories.

The European Commission reports tariffs as high as 44% on certain machinery products, with most tariffs scheduled for elimination over time.

This can produce two opposing effects:

- **Positive:** Indian manufacturers obtain cheaper capital goods and technology.
- **Adjustment risk:** Domestic producers of competing machinery may face increased competition

Automobiles

Automobiles constitute a particularly sensitive area.

The agreement provides a phased reduction of Indian automobile tariffs, with tariffs on certain vehicles moving toward 10% under a quota arrangement.

This could:

- Increase consumer choice
- Reduce prices for some imported vehicles
- Facilitate technology transfer
- Stimulate competition

At the same time, Indian automobile manufacturers may experience increased competitive pressure, particularly in premium and technologically sophisticated segments.

Medical Equipment

EU exports of optical, medical and surgical equipment are expected to benefit from tariff reductions.

This may improve access to advanced medical technologies in India but may also expose domestic medical-device manufacturers to greater competition.

Chemicals and Pharmaceuticals

Increased European access could intensify competitive pressure in India's chemical and pharmaceutical markets.

The ultimate impact will depend on:

- Product differentiation
- Domestic technological capabilities
- Economies of scale
- Innovation
- Regulatory compliance

Sectoral Opportunity-Risk Framework

Indicative sectoral effects for India present in Table 4.

Table 4: Indicative Sectoral Effects for India

Sector	Export opportunity	Import-competition exposure	Principal determinant
Textiles	Very high	Moderate	Price+sustainability compliance
Apparel	Very high	Moderate	Quality, design, compliance
Leather	High	Moderate	Environmental standards
Footwear	High	Moderate	Quality and branding
Chemicals	High	High	Technology and scale
Pharmaceuticals	High	Moderate-high	Regulatory approval
Marine products	High	Moderate	SPS/traceability
Gems & jewellery	High	Moderate	Design and certification
Machinery	Moderate	High	Technology
Automobiles	Moderate	High	Price, technology, scale
Medical devices	Moderate	High	Innovation and certification
Agri-food	High	Moderate	SPS and traceability
Services	High	Competitive	Skills and regulatory access

Source: Author's synthesis based on the final agreement information and official sectoral assessments

Estimated Trade Effects

An important distinction must be made between official ex-ante estimates and actual post-implementation outcomes.

The European Commission's 2023 Sustainability Impact Assessment, undertaken before the final agreement, provides a useful benchmark. Under its ambitious scenario, the model estimated substantial increases in bilateral merchandise trade [18].

Among the sectors identified in that assessment, India's bilateral exports to the EU were projected to increase particularly strongly in:

- Textiles
- Leather
- Ferrous metals
- Wearing apparel
- Selected agricultural products

The SIA estimated that India's exports in textiles could increase by approximately €8.4 billion, while leather exports could increase by approximately €5.3 billion under the ambitious scenario. The corresponding estimates for EU exports to India were considerably smaller in those sectors.

For motor vehicles and parts, however, the model projected increases in both directions, illustrating the two-sided nature of the agreement.

The same assessment estimated a marginal overall GDP and welfare effect of approximately 0.2% for both India and the EU under its ambitious scenario.

These numbers should not be presented as forecasts of the final agreement's actual impact. They were generated from an earlier negotiated scenario and should instead be treated as a benchmark against which the final agreement can subsequently be evaluated.

Services Trade

Services constitute an increasingly important component of India-EU economic relations.

The EU reports services trade of more than €67 billion in 2025, with telecommunications, computer and information services, business services and transport among major traded categories.

The final agreement contains provisions relating to:

- Professional mobility
- Financial services
- Maritime services
- Local presence
- Senior management
- Boards of directors
- Domestic regulation

For India, important potential beneficiaries include:

- Information technology
- Business-process services
- Consulting
- Professional services
- Engineering services
- Digital services
- Financial services

However, services liberalisation is more difficult to quantify than tariff reductions because market access depends on domestic regulation, recognition of qualifications, data-related requirements and movement of professionals.

DISCUSSION

The analysis suggests that the India-EU FTA can alter India's trade structure through three major mechanisms.

First: Market-Access Effect

Tariff reductions lower the landed price of Indian exports in European markets.

Second: Competitiveness Effect

Greater competition can stimulate productivity, quality improvement and technological upgrading.

Third: Supply-Chain Effect

Indian firms may become more deeply integrated into European production and distribution networks.

These effects are not automatic.

The final outcome will depend on the interaction between:

$$\$ \$ \text{Tariff} \backslash \text{Preferences} + \text{Firm} \backslash \text{Competitiveness} + \text{Regulatory} \backslash \text{Compliance} + \text{Infrastructure} + \text{Skills} + \text{Finance} \$ \$$$

Consequently, the agreement should not be evaluated only by the percentage of tariff lines liberalised.

Policy Implications

Strengthen Export Infrastructure: India should expand:

- Testing laboratories
- Certification facilities
- Cold-chain infrastructure
- Port efficiency
- Customs digitisation
- Logistics connectivity

Establish an FTA Support Programme for MSMEs

MSMEs require assistance with:

- Rules of origin
- Tariff classification
- EU standards
- Certification
- Documentation
- Digital trade procedures

Promote Technology Upgrading

Government support should focus on technology-intensive sectors facing increased competition from European firms.

Develop Sector-Specific Export Strategies

A uniform FTA policy is unlikely to be optimal. Separate strategies should be developed for:

- Textiles
- Apparel
- Leather
- Pharmaceuticals
- Chemicals
- Food processing
- Marine products
- Engineering goods

Improve Skills

Export expansion requires workers capable of meeting European quality, sustainability and technical requirements.

Strengthen Trade Intelligence

A dedicated India-EU FTA monitoring mechanism should track:

- Utilisation rates
- Sectoral exports
- Rejected consignments
- Tariff preference utilisation
- Rules-of-origin compliance
- New EU regulations
- MSME participation

Limitations of the Study

The study has several limitations:

- **First:** The FTA had not yet generated sufficient post-implementation observations at the time of this research. Therefore, causal ex-post estimation is not possible
- **Second:** Existing official model estimates were generated using assumptions associated with earlier negotiated scenarios. They should not be interpreted as guaranteed outcomes of the final agreement
- **Third:** Services trade is difficult to estimate using conventional tariff-based models because services barriers are largely regulatory
- **Fourth:** The impact on employment and income distribution depends on domestic labour-market conditions and cannot be inferred directly from merchandise trade expansion
- **Finally:** The actual impact will depend substantially on the timing and conditions of entry into force and implementation

Future Research

Future studies should undertake a post-implementation evaluation using:

- Compare India-EU trade with comparable India-third-country trade before and after implementation
- Estimate changes in bilateral trade costs using exporter-year and importer-year fixed effects

CONCLUSION

The India-EU Free Trade Agreement represents a substantial restructuring of bilateral market access. The agreement provides India with preferential access across approximately 97% of EU tariff lines covering almost 99.5% of Indian export value, while India simultaneously provides substantial market access to European exporters [19,20].

The strongest potential opportunities for India are concentrated in labour-intensive and export-oriented sectors such as textiles, apparel, leather, footwear, marine products, pharmaceuticals, chemicals, gems and jewellery and selected agricultural and processed-food products.

At the same time, the agreement will increase competitive pressures in sectors where European firms possess strong technological and capital advantages, particularly machinery, automobiles, medical equipment and selected chemical and pharmaceutical products.

The principal contribution of this study is therefore to demonstrate that the economic consequences of the India-EU FTA cannot be understood solely through tariff reductions. The actual magnitude of trade expansion will depend on the capacity of Indian firms to exploit preferential access, satisfy European standards, achieve productivity improvements and integrate into European value chains.

The existing EU Sustainability Impact Assessment provides a useful quantitative benchmark, including projected increases in bilateral exports and approximately 0.2% gains in GDP and welfare under its ambitious scenario. However, these estimates should be treated as scenario-based ex-ante results rather than forecasts of the final agreement.

The central implication is that preferential market access is a necessary but not sufficient condition for export expansion. India's ability to translate the agreement into sustained trade and employment gains will depend on complementary domestic policies covering infrastructure, skills, certification, technology, export finance, logistics and MSME support.

Future empirical research should therefore move from ex-ante scenario analysis to product-level and firm-level ex-post evaluation once sufficient post-implementation data become available.

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