2. India-European Union Free Trade Agreement- International Relation

India And European Union Trade Agreement "Mother of All Deals" Unlocking Opportunities

The conclusion of the India-European Union (EU) Free Trade Agreement (FTA) negotiations marks a historic milestone, uniting the world's 4th and 2nd largest economies. This comprehensive pact creates a deeper market integration for a partnership that accounts for nearly 25% of global GDP and one-third of global trade.

1. Trade and Economic Context (2024-2026)

The relationship has seen significant growth even prior to the formal finalization of the FTA.

Bilateral Trade Volume- Annual trade in goods and services stands at approximately €190 billion.

1. Goods- €120 billion.
2. Services- Over €80 billion.

Trade Hierarchy- The EU is India's largest trading partner, accounting for 11.5% of India's total trade. India is the EU's 9th largest trading partner (2.4% of EU trade), trailing behind the USA, China, and the UK.

Investment Footprint- EU Foreign Direct Investment (FDI) in India reached €140.1 billion in 2023, with over 6,000 European companies currently operating in India.

2. Major Highlights of the FTA

A. Market Access and Tariff Rationalization - The agreement follows a principle of asymmetrical reciprocity to balance the developmental needs of India with the market strength of the EU.

Feature	India's Access to EU	EU's Access to India
Tariff Lines Covered	97% of all tariff lines.	92.1% of tariff lines.
Trade Value Covered	99.5% of total trade value.	97.5% of EU export value.
Industrial Duties	Immediate zero duty for labor-intensive sectors.	Phased elimination (5-10 years) for machinery (44%), chemicals (22%), and pharma (11%).
Automotive Sector	Access for car parts.	Quota-based reduction for built vehicles (from 110% to 10%).

B. Safeguarding Sensitive Sectors - India has successfully protected its domestic socio-economic interests by excluding high-sensitivity products from duty concessions-

Agriculture & Dairy- Dairy, cereals, poultry, and soymeal.

Horticulture- Specific fruits and vegetables to protect local farmers.

C. Services and Mobility Framework

Subsector Coverage- Commitments secured across 144 subsectors, including IT/ITeS, Education, and Professional Business Services.

Professional Mobility- An assured regime for temporary entry (Mode 4) covering

1. Business Visitors and Independent Professionals.
2. Intra-Corporate Transferees and Contractual Service Suppliers.

AYUSH Recognition- A breakthrough for Indian traditional medicine; AYUSH practitioners can provide services in EU member states where local regulations don't exist, using Indian qualifications.

3. Climate, Sustainability, and CBAM

A critical component of the 2026 framework is the alignment with the EU's Green Deal and Carbon Border Adjustment Mechanism (CBAM).

MFN Assurance on Carbon- India secured a "Most-Favored Nation" assurance, meaning any carbon-related flexibility the EU gives to other countries will automatically apply to India.

Technical Cooperation- Includes mutual recognition of carbon verifiers and financial assistance to help Indian exporters transition to low-emission production.

Investment in Resilience- The European Investment Bank committed €2 billion to climate-resilient infrastructure.

EU-India Climate Platform- A dedicated cooperation platform set to launch in 2026 to synchronize environmental standards.

4. Significance and Gains for India

A. Export Competitiveness

Engineering and Marine Goods- Preferential access to the EU's USD 2 trillion engineering market and 100% trade value coverage for marine products (reducing duties up to 26%). This directly benefits coastal states like Kerala, Gujarat, and Andhra Pradesh.

Labor-Intensive Growth- Sectors like Textiles, Apparel, Leather, Footwear, Toys, and Gems & Jewellery will enjoy zero-duty entry, boosting employment and competitiveness.

B. Agricultural and Rural Impact

Niche Exports- Preferential access for processed foods, tea, coffee, spices, table grapes, gherkins, and sheep meat.

Social Outcomes- These provisions are expected to strengthen rural incomes and increase women's participation in the processed food and spice supply chains.

C. Global Value Chain (GVC) Integration

Diversified Imports- Lowering duties on EU high-tech goods (machinery and chemicals) reduces input costs for Indian manufacturers, facilitating their integration into global supply chains.

5. Composition of Current Trade

Category	EU Imports from India (India's Exports)	EU Exports to India (India's Imports)
Primary Goods	Textiles, Mineral products, Base metals.	Transport equipment, Specialized machinery.
Industrial	Machinery, Appliances, Chemicals.	High-end Chemicals, Precision instruments.
Services	IT/BPO, Professional consulting.	Finance, Intellectual Property, Transport services.

6. Conclusion

The India-EU FTA is more than a commercial contract; it is a strategic alignment. By bridging the gap between European technology/capital and Indian manufacturing/service prowess, the agreement reinforces India's position as a premium, trusted supplier. Its success will hinge on the effective implementation of the climate-related support mechanisms and the smooth transition of Indian MSMEs into the zero-duty regime.

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