India –EU Free Trade Agreement — "Mother of All Deals"

Mains: *GS II – Bilateral Relations*

Why in News?

Recently, India and the European Union announced the successful conclusion of a long-pending Free Trade Agreement (FTA) — often described by leaders as the "mother of all deals."

What Is the India-EU Free Trade Agreement (FTA)?

- **Background** – The deal comes after nearly two decades of negotiations beginning in 2007, with stops and starts over market access issues, regulatory differences, and strategic sensitivities.
- It is part of a wider strategic and cooperative agenda that brings the two partners closer together on economic, regulatory, and security issues.
- At the heart of the new agreements is a Free Trade Agreement that aims to dramatically reduce trade barriers between India and the EU.
- **Scope and Coverage** – The FTA covers goods, services, investment, movement of professionals, regulatory cooperation, and sustainable development provisions.
- It is set to impact a market of nearly 2 billion people, accounting for roughly one-third of global trade and about one-quarter of global economic output.
- **Tariff Reductions** – The most significant element of the FTA is tariff liberalisation on goods:
- Tariffs will be eliminated or reduced on approximately *96–99%* of traded goods by value.
    - **Duty free access** – Many labour-intensive Indian exports, such as textiles, leather, footwear, tea, spices, sports goods, toys, and gems and jewellery will receive immediate duty-free access to EU markets.
- For other products, tariff elimination will be phased over several years, offering predictability while protecting sensitive sectors as the transition occurs.

What are the sensitive sectors and safeguards?

- **Protected sectors** – While the agreement reduces tariffs on most products, **certain categories remain protected**, or face gradual quota-based opening.
    - **Agriculture –** Core products like dairy, cereals, and some poultry are kept out or subject to protective measures.
    - **Automobiles –** India will reduce taxes on European cars from very high levels to lower tariffs in stages; there are quota systems to balance competitive pressures.

    - **Wine and spirits –** Duties will be cut substantially over time, boosting EU exports while retaining some safeguards for local industries.
- **Services and Mobility –** The agreement also includes a comprehensive services chapter that provides:
- Commitments on market access in 140+ service sub-sectors, including IT, finance, engineering, and education.
- A mobility framework to allow skilled professionals, business visitors, and certain service providers smoother cross-border access.

What are the economic and strategic impacts?

- **Economic Growth and Exports –** EU exports to India could double by 2032, driven by lower tariffs on machinery, chemicals, pharmaceuticals, and automotive goods.
- Indian exports will benefit from duty-free access in several high-value sectors, estimated to open access worth *~Rs.6.4 trillion (about $75 billion)* across a range of products.
- Sectors such as textiles, leather, gems and jewellery, engineering goods, and marine products are set for significant market expansion.
    - **For example**, the gems and jewellery sector alone is expected to double its exports to the EU in coming years due to zero-duty market access.
- **Industrial and Supply Chain Benefits –** Reduced production costs for Indian manufacturers by lowering the cost of imported machinery, components, and industrial inputs.
- It will help Indian companies integrate deeper into Europe-centred global value chains, particularly in technology, engineering, and advanced manufacturing.
- It would spur foreign direct investment (FDI) into India as EU firms seek to utilise India as a strategic production and export hub.
- **Strategic Diversification –** The deal comes against a backdrop of global trade uncertainty, where rising protectionism especially in the United States.
- It has encouraged both India and the EU to diversify partners and reduce dependency on single markets.
    - The FTA reinforces India's role as a *China-plus-one trade partner* for European companies.
    - It strengthens the EU's engagement in the Indo-Pacific, balancing geopolitical interests with economic integration.

What are the regulatory and security agreements?

- **Regulatory Cooperation –** India and the EU have signed a cooperation agreement on financial market oversight, especially concerning clearing houses.
- This resolves regulatory disputes and opens avenues for cross-border financial integration.
- **Sustainable Development and Climate Action –** The FTA has a dedicated trade and sustainable development chapter aimed at:
    - Supporting environmental protections, labour rights, and climate action collaborations.
    - Building joint platforms and funding mechanisms (including EU support for

India's climate and clean energy goals).

- **Strategic Security Partnership –** Parallel to economic cooperation, India and the EU have discussed security and defence collaboration, focusing on:
  - Counter-terrorism and maritime security in the *Indo-Pacific.*
  - Joint initiatives in *cybersecurity* and technology co-development.
- This strategic overlay adds depth to the economic deal, showing that the partnership aims for long-term geopolitical alignment.

What are the challenges?

- **Ratification Process –** The FTA must still be approved by EU member states and the European Parliament, and by India's government and legislature — a process that can take months.
- **Sensitive Sectors –** Some sectors remain outside full liberalisation to protect domestic producers, requiring careful implementation and monitoring.
- **Regulatory Alignment –** Harmonising standards, environmental rules, and digital regulations will require continued negotiation and cooperation.

What lies ahead?

- The India-EU FTA and the accompanying cooperation frameworks represent one of the most significant trade and strategic partnerships of the 21st century:
- It is a milestone in India's global economic integration, offering expanded opportunities for exporters, industry clusters, and workers.
- It enhances the EU's access to one of the fastest-growing large markets.
- It strengthens both partners' geopolitical positions amid global trade realignments.
- While implementation will take time and careful adjustment, the new agreements mark a major step forward in India-EU relations — economically, strategically, and geopolitically.

References

1. The Times of India| India – EU FTA

2. PIB| India's 22nd FTA

SHANKAR IAS PARLIAMENT
Information is Empowering