

EU-India free trade agreement

Economics
India

Finally done; meaningful benefits to come

- ◆ The EU-India FTA has been announced, bringing together two large regions with complementary trade baskets and large potential to integrate
- ◆ For both sides, the trade deal will likely bring diversification benefits beyond goods trade
- ◆ The aim is to double bilateral trade in five years; sectors to benefit include textiles, jewellery, and engineering goods for India, automobiles and defence for the EU

After a two-decade long negotiation, India and the EU have finally sealed a Free Trade Agreement (FTA). The implementation is likely in 2027, following legal vetting and EU parliamentary approval. This is amongst the larger global trade deals recently negotiated. India and the EU combined account for around 25% of global GDP, and the deal is billed as the largest ever made by both sides. The potential for growth is substantial, given the trade in this region is only 0.6% of global trade. The benefits could eventually go beyond goods trade, including larger FDI flows, more services trade, and strategic diversification.

The FTA is described as the “mother of all deals” – which is balanced, yet ambitious and mutually beneficial for both parties. In FY25, India-EU goods trade was almost USD140bn. Details show that the India-EU trade is **built on complementary value chains**. The EU sells capital goods and industrial inputs to India (such as high-end machinery, electronic components, aircraft, and medical devices). India sells labour-intensive and consumer-focused goods to the EU (such as smartphones, garments, footwear, pharmaceuticals, auto parts, and diamonds, though fuel tops the list).

As per the press release, the trade agreement aims to liberalise 92-97% of tariff lines. Officials hope the deal will **double bilateral trade** within five years.

In detail, several sectors are to be liberalised, while respecting red lines on both sides:

- ◆ **Labour-intensive exports** like textiles, leather, marine products, gems and jewellery are set to gain from preferential access and tariff elimination.
- ◆ India to cut import duties on **automobiles** from 110% to as low as 10% (quota of 250k). Indian-made automobiles to get access to the EU market.
- ◆ Tariffs on the EU's export of **wine** to be cut from 150% to 75% (and eventually reduced to 20%).
- ◆ Both sides to get preferential access to each other's **agricultural markets**, while safeguarding sensitive sectors (e.g. dairy for India and chicken/beef for the EU).

Services trade is likely to benefit from preferential access (e.g. in financial services).

Labour may benefit from easier mobility norms. **Investment** may get a boost from supply chain integration and deeper partnerships (for instance, in defence)

0.6% of global trade

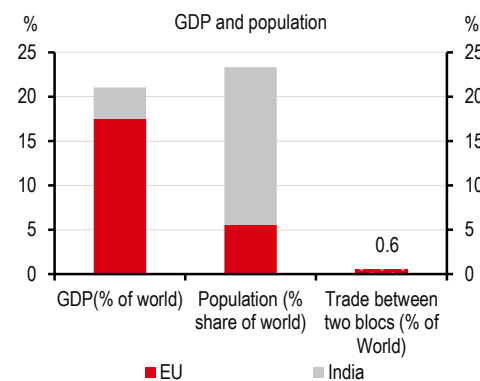
EU-India trade remains limited, with room to grow

1. The India-EU trade deal is amongst the larger deals negotiated globally



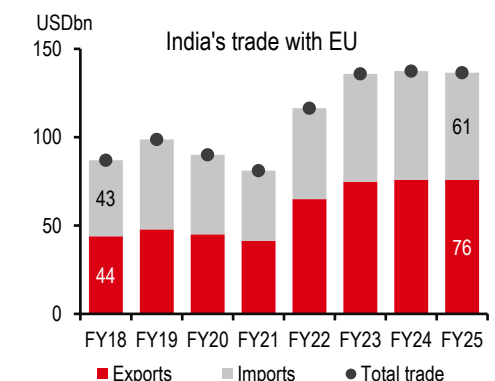
Source: IMF, HSBC. Note: Deals with India marked in grey

2. India and the EU represent a quarter of global GDP, with only 0.6% of global trade



Source: IMF, UN population, HSBC

3. In FY25, India-EU goods trade was almost USD140bn



Source: Ministry of Commerce and Industry, HSBC

4. India trade with the EU by product share

| Trade with the EU (% share in total) | | | | | | | |
|--------------------------------------|------|------|--------|-------------------------------|------|------|--------|
| Exports to the EU | | | | Imports from the EU | | | |
| | 2014 | 2024 | Change | | 2014 | 2024 | Change |
| Mineral fuels & oils | 11 | 22 | 11 | Machinery & parts | 18 | 22 | 4 |
| Electrical machinery | 4 | 14 | 10 | Electrical machinery | 9 | 14 | 5 |
| Machinery and parts | 5 | 6 | 1 | Aircraft & spacecraft | 1 | 9 | 8 |
| Organic chemicals | 7 | 6 | -1 | Optical & medical instruments | 5 | 7 | 2 |
| Iron and steel | 4 | 5 | 1 | Precious metals & stones | 24 | 4 | -19 |
| Pharmaceutical products | 2 | 4 | 1 | Plastics and articles thereof | 4 | 4 | 0 |
| Precious metals & stones | 8 | 3 | -4 | Organic chemicals | 5 | 4 | -1 |
| Vehicles and parts | 4 | 3 | -1 | Vehicles and parts | 3 | 4 | 0 |
| Non-knitted apparel | 6 | 3 | -3 | Misc. chemical products | 2 | 3 | 1 |
| Knitted apparel | 6 | 3 | -3 | Iron and steel | 3 | 3 | -1 |
| Share of top 10 exports | 58 | 70 | | Share of top 10 exports | 74 | 73 | |

Source: ITC trademap, HSBC

For India, just when it was needed

Meaningful unrealised potential. As a block, the EU is India's largest trading partner. In FY25, India exported USD76bn of goods to the EU and bought USD61bn of goods from the EU. Prior to this trade deal, the ITC export potential map showed that c50% of India's export potential to the EU remains untapped. **As per ITC, large gains are possible across several sectors – machinery, jewellery, electronics, pharmaceutical components, and textiles¹.**

c50%

of India's export potential to the EU remains unrealised

Substitute for US exports. The 50% tariff imposed by the US on India's exports has led to efforts by Indian exporters to look for new destinations. Interestingly, India's exports in value terms to the EU (USD76bn in FY25) and the US (USD87bn) are in the same broad range, and the products traded are also similar (see exhibit 5, barring the large fuel exports to the EU). From that perspective, the EU could be a region that India wants to focus on, to redirect some of its exports.

Indeed, labour intensive sectors, such as textiles and gems and jewellery, were most at risk with the US tariffs (see exhibit 6). These may now benefit from tariff elimination in the India-EU trade deal.

In the medium term, gains could be larger and beyond goods trade, spilling over into FDI flows (India currently gets 16% of its FDI from the EU), and more integration in services trade (c20% of India's IT exports currently go to the EU).

External reforms strengthen. This trade deal follows other recent external sector reforms. India signed several trade deals last year, including deals with the EU, New Zealand, and Oman. It is opening up more sectors for FDI (e.g. FDI limits in insurance have been raised from 74% to 100%). And it is lowering tariffs on imported intermediate inputs (we expect more on this in the 1 Feb budget). As we have previously described, these steps should help grow India's manufacturing sector, which has been a laggard, especially when compared with India's services exports.

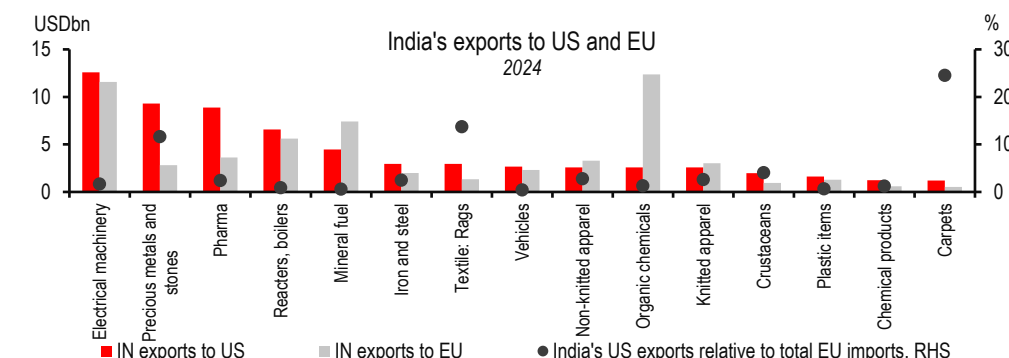
5. India exports similar goods to the US and the EU



Source: ITC trademap, HSBC. Note that Export Similarity Index (ESI) is calculated by summing the minimum of India's export shares to the EU and to the US for each product

¹ Estimates of unrealised export potential are based on the [ITC export potential methodology](#) and [product list](#).

6. As India-EU start trading more, labour-intensive exports like textiles could find a new home



Source: ITC trademap, HSBC

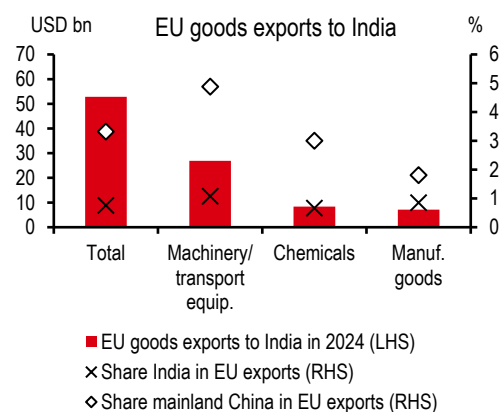
For the EU, a deal with trade but also strategic implications

From the EU's point of view, the deal also represents an opportunity to improve its access to a large market (1.4 billion people) that is still relatively closed. Today, India represents only 0.8% of the EU's exports in goods, versus 3.6% for mainland China for example. Given the focus on cars in the deal, there is potential to increase the share of India in EU exports in machinery and transport equipment (1.1% versus 4.9% for mainland China), a sector that represents the largest part of EU exports to India (see Exhibit 7). There could also be an opportunity for the European defence industry, given the willingness to strengthen defence ties via the EU-India Security and Defence Partnership.

The trade deal could especially benefit Germany, France, and Italy as they are the EU countries that export the most to India in absolute terms (with respectively 35%, 15%, and 11% of EU exports to India, see Exhibit 8). In relative terms, India represents the higher share of total exports for France (1.4%), Belgium (1.3%), Germany (1.2%), and Finland (1.1%).

Beyond trade, the deal also has strategic implications for the EU as it allows to strengthen the diplomatic and defence ties with a key strategic partner in Asia. It also supports diversification away from China and the US, extending the push seen with the recent EU-Mercosur deal.

7. The share of India in EU total exports is relatively low



Source: Macrobond, UNCTAD, HSBC

8. Germany is the largest EU exporter to India, but France and Belgium are slightly more exposed in relative terms



Source: Macrobond, Eurostat, HSBC

Risks: That said, EU farmers may protest against agricultural imports from India. The FTA still needs to be approved by the European Parliament (EP), which would take at least a year. Recently, the European Court did not approve the EU-Mercosur deal, which now awaits judgement by the EP.

Secondly, the EU's carbon border levy could blunt some tariff gains for India, especially for sectors such as steel, although today's press release mentions some flexibility has been secured. Either way, key sectors like pharma and textiles are relatively less carbon intensive.

Disclosure appendix

Important disclosures

Additional disclosures

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