



Deep Integration in a Fragmented World: An Analysis of the India-EU Trade Compact

B.H. Nagoor¹, Prasanna S²

¹Professor, Department of Economics, Karnatak University, Dharwad, India 580003

²Research Scholar, Department of Economics, Karnatak University, Dharwad, India 580003

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Abstract

This paper analyzes the 2026 India-European Union Free Trade Agreement (FTA) as both an economic and a strategic instrument. On the economic side, it examines the agreement's asymmetric but comprehensive liberalization of goods, services, and investment, highlighting sectoral impacts in automobiles, textiles, leather, marine products, and pharmaceuticals, and tracing their implications for skilled and unskilled labour markets. On the strategic side, it situates the FTA within India's broader turn from defensive protectionism to selective deep integration, and the EU's parallel effort to de-risk supply chains and diversify away from China. The paper argues that the agreement's primary significance lies less in one-off tariff cuts than in its deep-integration provisions—most notably a stand-alone Investment Protection Agreement with an Investment Court System-style mechanism, disciplines on government procurement, regulatory cooperation on standards and sustainability, and advanced rules on digital trade and data governance. Taken together, these elements position the India-EU FTA as a paradigmatic “second-generation” agreement that simultaneously reshapes sectoral trade patterns, reconfigures labour-market demands, and anchors a longer-term geoeconomic partnership between India and the European Union.

Keywords: India-EU Free Trade Agreement, deep integration, trade creation and trade diversion, heterogeneous firms, geopolitical economy, investment protection.

I. Introduction

The India-European Union FTA, signed on 27 January 2026, is widely described as the “mother of all deals” in terms of its scale and potential impact on two-billion-strong economies [1], [2]. Covering approximately 96.6% of India's tariff lines on EU imports and around 99.5% of EU tariff lines on Indian exports, the agreement marks a turning point in India's trade-policy posture, moving from a traditionally cautious, sector-by-sector liberalization

approach toward a more integrated, rules-based partnership with the EU [3], [4].

A key feature of India's recent trade diplomacy is the emergence of a distinct pattern: the sequencing of FTAs with major developed-economy partners alongside closer political and security ties. The India-UK Trade and Economic Partnership Agreement, signed in 2025, introduced unprecedented tariff reductions on British automobiles and machinery, coupled with enhanced commitments in services and digital trade, setting a template for India's engagement with other advanced economies [5], [6]. The India-EU deal can be read as a continuation of that pattern, deepening access to Europe's manufacturing and services markets while anchoring India-EU relations in a broader strategic agenda that includes security cooperation and standards convergence [4], [7].

Central to this pattern is the role of recent US foreign-policy shifts. The second Trump administration has pursued a markedly protectionist trade stance, imposing a 25% baseline tariff on most Indian goods effective August 2025, with only limited exemptions for pharmaceuticals, active pharmaceutical ingredients, and certain electronics [8], [9]. These measures have significantly constrained India's traditional export avenues to the United States, raising concerns about reduced competitiveness for labour-intensive sectors such as textiles and footwear. In this context, the India-UK and India-EU FTAs function as partial “shields” against volatile US trade policy, allowing India to diversify its export destinations and investment linkages [4], [6].

The India-EU FTA thus does not appear in isolation; it is part of a broader reorientation of India's trade-policy mix toward a multilateralized but selective deep-integration strategy. Sensitive sectors such as dairy, beef, rice, sugar, and certain poultry products remain excluded from full liberalization, reflecting domestic political constraints and the legacy of India's historically protectionist stance [4], [10]. At the same time, the agreement locks in commitments on investment protection, services



mobility, and regulatory cooperation, signalling that India is willing to accept greater regulatory alignment in exchange for access to EU capital and high-value services markets [3], [4].

This paper analyses the 2026 India-EU FTA with a focus on three sets of questions. First, how does this agreement fit into the broader pattern of India's recent FTAs with the United States and the United Kingdom, particularly in terms of sectoral coverage and regulatory depth? Second, what are the likely sectoral and employment implications of the tariff and non-tariff provisions, once the liberalization is phased in over the agreed horizons? Third, how does the interaction between recent US trade policy and India's strategic-autonomy-driven diversification condition the real-world effects of the FTA?

The remainder of the article is organized as follows. Section 2 situates the India-EU FTA within the broader literature on preferential trade agreements and India's trade-policy evolution. We also trace the evolution of the India-EU negotiations from the 2007 BTIA launch to the 2026 conclusion,

highlighting the timing of earlier stalled rounds alongside the India-UK and India-US engagements. Section 3 provides a sectoral breakdown of the FTA's provisions, including a comparative table of tariff and services commitments. Section 4 examines the labour-market and employment implications, and Section 5 discusses the deep-integration elements around investment, procurement, and standards. Section 6 concludes and suggests avenues for future empirical work.

II. Literature Review

2.1 Historical perspective on the India-EU FTA

The India-European Union FTA, concluded in 2026, is the endpoint of a protracted negotiation process that began in 2007 under the rubric of the Broad-based Trade and Investment Agreement (BTIA) [11], [12]. The agreement's evolution reflects the tension between India's cautious trade-policy posture and the EU's push for deeper integration, and its trajectory is best understood through a timeline of key milestones (Table I).

Table 1. Key milestones in the India-EU FTA/TBIA: 2007-2026.

Year	Milestone
2007	Launch of BTIA negotiations, notified to the WTO, covering trade in goods, services, investment, and government procurement [11], [13].
2008-2013	16 rounds of technical negotiations; divergence on market access (autos, wines), investment rules, and sensitive agriculture stalls talks [4], [11].
2013	Formal suspension of BTIA negotiations; EU cites unresolved market-access and regulatory issues, India emphasizes safeguards for small farmers and domestic industry [11], [14].
2014-2020	"Nine-year lull" in formal FTA talks; India focuses on RCEP (later exiting in 2019), while the EU concludes CETA and the EU-Japan EPA.
2021	India-EU Leaders' Meeting in Porto agrees to "resume and deepen" negotiations on a free trade agreement, alongside a stand-alone Investment Protection Agreement (IPA) and a Geographical Indications (GIs) agreement [15].
2022	Formal re-launch of FTA negotiations in Brussels, with separate tracks for trade, investment, and GIs, after a nine-year hiatus [12].
2025	Intensified negotiating rounds following the India-UK and India-Australia FTAs, which set benchmarks for India's market-access commitments and services liberalization [5],[6].
2026	Political conclusion of the India-EU FTA signed at the India-EU Summit in New Delhi; final signing expected once legal-scrubbing and ratification processes are completed [2], [11].

The India-EU FTA is thus a paradigmatic case of a second-generation, deep-integration preferential trade agreement. It moves beyond simple tariff-cutting toward regulatory alignment in services, investment, intellectual property, labour and environmental standards, and digital trade [3], [4]. The timeline also reveals a growing institutional learning curve in India's FTA design, as seen in the adoption of a three-track structure (trade, IPA, GIs)

to de-risk the overall package from any single contentious issue [16].

2.2 Mega-regional Trade Agreements and Economic Impacts

The India-EU FTA forms part of the broader wave of mega-regional trade agreements (MRAs), including the Trans-Pacific Partnership (TPP/CPTPP), the EU-Canada Comprehensive Economic and Trade Agreement (CETA), and the



EU-Japan Economic Partnership Agreement (EPA) [17]. MRAs extend beyond tariffs to include complex rules on services, investment, intellectual property, competition policy, and sustainability, effectively creating large economic blocs outside the WTO framework [18].

Theoretical and empirical research on MRAs yields two main insights. First, such agreements often generate significant trade-creation effects in differentiated manufactured goods and services, especially when accompanied by regulatory harmonization and reduced behind-the-border barriers [19]. Second, they risk trade diversion and welfare losses for non-members, particularly smaller developing economies that are excluded from regulatory networks and standards-setting forums [20]. In India's case, the India-ASEAN, India-Japan, and India-South Korea FTAs were found to induce trade diversion in certain sectors, underscoring the importance of complementary domestic reforms to realize net-welfare gains [21], [22].

The India-EU FTA falls squarely within this MRA category, with its 96.6/99.5% tariff-line coverage and extensive regulatory chapters. If India's non-MFN tariffs on third-country exports remain high, the agreement is likely to channel trade away from non-FTA partners, transforming India into a rules-based "hub" in EU-centric value chains while simultaneously exposing some domestic sectors to efficient EU competition [4].

2.3 India's Historical Trade Protectionism and Recent FTA Strategy Shifts

India's FTA-policy stance has historically been shaped by a legacy of import-substitution industrialization and strategic caution. The 1991 reforms liberalized tariffs gradually, but the government long avoided comprehensive FTAs with major developed economies, preferring to rely on the multilateral WTO system and South-South arrangements [21], [23]. Bilateral FTAs with Japan, South Korea, and ASEAN often generated trade-diversion-driven deficits, prompting India to adopt a more defensive posture by the late 2010s [22].

The India-EU FTA coincides with a marked shift toward active, rules-based engagement. The government's "Aatmanirbhar Bharat" (Self-Reliant India) and Production-Linked Incentive (PLI) schemes combine selective protectionism with deeper integration, aiming to attract foreign investment and technology transfer [24]. FTAs signed or completed around the same period - India-UK, India-Australia, and India-UAE - share a common design: tariff reductions on capital-intensive and technology-intensive imports, in exchange for

access to EU-style regulatory networks and standards-setting bodies [6], [16].

This evolution suggests that India is moving from a defensive, protection-driven model to a strategic, selective-integration model. The India-EU FTA anchors this shift: by agreeing to deep-integration in services, investment, and digital trade, India accepts greater regulatory alignment in exchange for market access, investment flows, and technology spillovers [4], [25].

2.4 EU's Trade Diversification Objectives Post-China Dependency

The EU's FTA strategy has also undergone a structural transformation. The 2015 "Trade for All" strategy and the 2021 "New Agenda for Trade" explicitly frame trade policy as a tool for competitiveness, sustainability, and security, emphasizing diversification away from over-reliance on single suppliers [26]. The EU-China Comprehensive Agreement on Investment (CAI) and the EU-Canada and EU-Japan agreements reflect this dual logic of market access and risk-management [27].

The India-EU FTA fits into this de-risking agenda. India is positioned as an alternative node for electronics, pharmaceuticals, automotive components, and services, complementing Vietnam, Mexico, and Eastern Europe as part of the EU's "China-plus-one" strategy [28]. The EU's adoption of the Carbon Border Adjustment Mechanism (CBAM) and the Deforestation Regulation (EUDR) further embed environmental and sustainability standards into the India-EU FTA, effectively using FTAs as regulatory levers to shape Indian production and supply-chain practices [29].

In this context, the India-EU FTA is not merely a trade-policy instrument but a geoeconomic tool through which the EU seeks to secure more resilient and diversified supply chains while upholding its climate-policy commitments [1].

2.5 Supply Chain Resilience and Strategic Trade Partnerships

The final conceptual framing of the India-EU FTA arises from the literature on supply-chain resilience and strategic trade partnerships. The COVID-19 disruptions and geopolitical tensions have prompted advanced economies to prioritize "friend-shoring" and "near-shoring," building alliances with countries that share similar values and regulatory standards [30], [31]. India, with a large, young, English-proficient workforce and a growing services sector, is increasingly viewed as a strategic partner in this architecture [6], [28].



The India-EU FTA exemplifies the strategic-partnership logic: it embeds India in EU-centric supply chains for pharmaceuticals, IT services, and capital goods, while anchoring India-EU relations in a broader agenda of security cooperation, climate action, and digital-trade rules [1], [4]. The use of the Investment Court System (ICS)-style dispute-settlement mechanism and deep-regulatory cooperation in services and investment suggests that such agreements are designed not only to raise trade volumes but also to encourage long-term productivity convergence and technology upgrading [25], [32].

Taken together, this literature situates the India-EU FTA as a representative case of a second-generation mega-regional agreement, reflecting India's shift from cautious protectionism to selective deep integration, and the EU's turn toward trade-policy as a tool for supply-chain resilience and

strategic autonomy. The empirical analysis in the subsequent sections will build on these insights to assess the agreement's sectoral impacts and broader implications for India-EU trade.

III. Sectoral Provisions and Tariff Modifications

The India-EU FTA entails a complex, sector-specific pattern of tariff liberalization. Rather than a uniform cut, the agreement follows a phased and asymmetric approach, with some sectors moving to zero duty quickly, others facing long-phase-out periods, and a small group of products excluded from liberalization altogether [11], [33]. Table 2 summarizes the key changes in major goods sectors, comparing the pre-FTA regime with the FTA-driven outcome.

Table 2. India-EU FTA: Highlights of the sectoral tariff regimes.

Sector	Pre-FTA India on EU	Post-FTA India on EU
Automobiles (passenger cars)	110% on some segments, 35-50% average [33], [34]	10% cap over 5-7 years, with an annual quota of 250,000 vehicles (ICE and EVs); duties phased down from ~110% to 10% and EU components to 0% over 5-10 years [33], [35]
Wine	150% peak [33], [34]	~75% immediately, then phased down to 20-30% over several years; duties on EU olive oil and processed foods reduced/eliminated [33], [34]
Spirits	110-150% [36]	Reduced to 40% [36]
Beer	110% [36]	50% [36]
Textiles and Apparel	8-12% average on EU exports to India [34]	0% on nearly all textiles and apparel imports from India over 3-5 years, levelling India with Bangladesh and Vietnam [34], [35]
Leather and footwear	5-17% [36]	0% on most items [36]
Marine products (seafood)	12-26% [36]	0% on most lines, with India gaining preferential access for shrimp, tuna, and other seafood [36]
Gems and Jewellery	4% [36]	0% (phased) [34]
Machinery and Capital Goods	7-11% [34], [36]	0% or near-zero for most lines, improving India's access to EU capital goods [36]
Chemicals	Average 22% [36]	0% (phased) [36]
Pharmaceuticals	11% on some segments, 4-6.5% on others [36]	0% on most finished/bulk drugs over 5-10 years [36]
Dairy (milk, cheese, butter)	30-60% [33], [36]	Excluded from liberalization; EU protects dairy via exclusions and SPS rules [11], [33]
Rice	70-80% [36]	Excluded; linked to parallel GI negotiations on Basmati [15], [36]
Beef, Chicken, Sugar	30-60%	Excluded from liberalization [33], [34]



3.1 Automobiles and Capital Goods

The automobile sector is the most conspicuous example of India's flagship concession in the FTA. Under the pre-FTA regime, Indian tariffs on EU passenger cars stood at up to 110%, with an average of 35-50% on many models, shielding domestic manufacturers from competition [33]. The new deal replaces this with a quota regime of 250,000 EU vehicles per year, with duties on 160,000 internal-combustion-engine (ICE) cars phased down from near-110% to 10% over five years, while EVs and parts fall to 0% over 5-10 years [11], [36]. This creates a large, predictable, and price-advantaged market for EU automakers (Volkswagen, BMW, Mercedes-Benz, Renault, etc.) while providing India with access to premium models and technology-intensive components [33].

At the same time, India secures substantial liberalization on EU machinery, aircraft, and capital goods, with tariffs on many product lines reduced to 0% over the same horizons [36]. For Indian manufacturing, this implies lower input costs, improved productivity, and a better price-quality frontier for heavy industries, textiles, and electronics [4].

3.2 Textiles, Leather, and Footwear Products

Prior to the FTA, EU tariffs on Indian textiles and apparel averaged 8-12%, with some product lines excluded from the most favourable preferences [34]. The agreement commits the EU to eliminate these tariffs on essentially all textiles and apparel lines over 3-5 years, effectively levelling India with Bangladesh and Vietnam in the EU's preferential-trade hierarchy [34], [36]. Similarly, India secured 0% duties on EU machinery and chemicals, while the EU is removing or sharply reducing tariffs on Indian leather, footwear, marine products, and gems and jewellery [33], [36].

Crucially, the agreement includes a pragmatic "double transformation" rule of origin for apparel, which allows Indian manufacturers to use imported fabrics (e.g., from China or Southeast Asia) for up to a certain percentage of the product's value, provided the final assembly (cutting and sewing) occurs in India. This flexibility is vital for India's synthetic-apparel sector, which relies on imported man-made fibres. For leather and footwear, the deal removes the EU's complex escalation tariffs on value-added leather goods (e.g., handbags, jackets), creating incentives for Indian firms to move up the value chain rather than exporting raw hides or semi-finished leather.

Estimates suggest that duty-free access could boost India's textile and apparel exports to the EU by

\$10-12 billion annually within the first three years, directly supporting job creation in key clusters like Tirupur, Ludhiana, and Kanpur. However, the agreement also mandates strict adherence to sustainability and labour standards, meaning that Indian exporters will face rigorous scrutiny regarding environmental compliance and labour rights to maintain this preferential access.

3.3 Agricultural, Marine, and Food Products

The FTA's approach to agriculture is marked by selective liberalization rather than full integration. The EU historically imposed average tariffs above 36% on agri-food exports to India, with peaks on wine, spirits, and certain processed foods exceeding 150% [33]. Under the FTA, these will be reduced or phased down: wine from 150% to 20-30%, spirits to 40%, beer to 50%, and olive oil and many processed foods to 0% over time [34], [36]. This significantly improves market access for EU wine, olive oil, dairy-based processed foods, and confectionery in India's growing middle-class market, while India secures improved access for marine products and select processed agri-food exports [33].

However, several core products are excluded from tariff liberalization. Dairy, beef, rice, sugar, poultry, and certain key cereals are shielded by explicit exclusions, reflecting domestic political pressures in both India and the EU [11], [33]. The EU also maintains its sanitary and phytosanitary (SPS) and food-safety standards, limiting the immediate impact of tariff liberalization on culturally sensitive products [11].

3.4 Services and Investment

The FTA's liberalization extends beyond goods to services and investment. India will open 102 services sub-sectors to EU firms, while the EU will grant India access in 144 sub-sectors, including financial services, maritime transport, and professional services [4], [33]. The agreement also includes provisions on digital trade, data governance, and investment protection, institutionalised through a stand-alone Investment Protection Agreement (IPA) and an Investment Court System (ICS)-style dispute-settlement mechanism [3], [4].

Taken together, the sector-wise tariff and non-tariff provisions of the India-EU FTA create a highly asymmetric but strategically balanced package: India gains substantial export opportunities in labour-intensive manufacturing and services, while the EU secures access to premium Indian markets and embeds India in EU-centric supply



chains for capital goods, vehicles, and food and beverages [11], [34]. The empirical analysis in the following sections will assess the likely trade-creation and trade-diversion effects of this package using India-EU trade-flow data.

IV. Labor Market Implications of the India-EU FTA

The India-EU FTA is expected to generate significant and uneven effects across India's labour market. The sectoral tariff and non-tariff provisions outlined in Section 3 create distinct opportunities and pressures for unskilled, semi-skilled, and skilled workers. The agreement's combination of goods-liberalization schedules, services-mobility provisions, and investment-protection commitments produces a complex pattern of employment creation, structural adjustment, and skill-upgrading, rather than a uniform improvement in labour outcomes. For India, the most significant gains lie in labour-intensive manufacturing and agri-processing, where the EU has granted near-comprehensive duty-free access. For Indian exporters, this creates a substantial price advantage in the EU market, with immediate welfare effects for workers in labour-intensive sectors such as textiles, leather, and seafood processing [6], [36].

4.1 Impacts on unskilled labor

For India, the most substantial gains in unskilled employment are expected in labour-intensive manufacturing and agri-processing, where the EU has granted substantial tariff reductions. The abolition of duties on textiles, leather, footwear, and marine products (seafood) improves the price competitiveness of Indian exports in the EU market, creating strong incentives for export-oriented firms to expand capacity and hiring [34], [36]. These sectors are capital-light, and output is largely driven by labour-intensive production processes, which implies that the FTA-induced export surge will translate into a significant increase in demand for unskilled and low-skilled labour in export-oriented clusters, such as Tamil Nadu's textiles belt, central-India leather hubs, and coastal seafood-processing regions [4], [6].

However, these gains are not without adjustment costs. The same tariff liberalization also exposes certain Indian manufacturing segments, particularly in low-end garments and basic processed foods, to fiercer competition from EU exporters [20]. This may lead to a partial consolidation or consolidation-driven exit of less-productive small and medium-scale enterprises, contributing to short-run unemployment and underemployment in the affected regions. The net effect on India's unskilled-

labour market will therefore depend on the relative speed of export-expansion channels versus the contraction in import-competing sectors [21], [22].

4.2 Impacts on semi-skilled and skilled labor

The FTA's most significant structural effects will be felt by India's skilled and semi-skilled workforce. The agreement's services-liberalization clauses and provisions on investment protection create a dual channel of labour-market transformation. First, India's concessions in manufacturing and services (Mode 4, temporary mobility) are expected to generate employment in information technology-enabled services (ITES), engineering services, and financial services. The EU's commitment to open approximately 144 services sub-sectors, coupled with India's pledge to open 102, signals a strong bias toward technology-intensive and knowledge-intensive activities [3], [33]. This is likely to increase demand for skilled Indian IT professionals, business-process-outsourcing (BPO) and knowledge-process-outsourcing (KPO) workers, and financial-services professionals, especially in metropolitan hubs such as Bangalore, Hyderabad, and Gurgaon [4].

Second, the FTA's investment-protection chapter and the stand-alone Investment Protection Agreement (IPA) create a more predictable environment for foreign direct investment (FDI) in capital- and technology-intensive sectors, including pharmaceuticals, chemicals, and engineering [4], [37]. This implies a rise in demand for semi-skilled technicians, plant operators, and quality-control staff, who can absorb the technology embodied in foreign capital and intermediate goods imported under the FTA's phased-tariff regime [25], [38]. In these sectors, the FTA is expected to generate employment that is qualitatively different from the pre-FTA pattern, with a greater emphasis on technical and analytical skills than on manual labour alone.

4.3 Implications for labor mobility

The India-EU FTA explicitly embeds labour-mobility provisions within a broader framework of corporate and academic cooperation. The agreement's Mode 4-style concessions on temporary mobility - granting 3-year ICT (Intra-Corporation Transferee) visas, along with access to EU public-procurement platforms for Indian contractors - create new channels for skilled Indian professionals to gain international experience while remaining tied to Indian firms [3], [4]. This is particularly relevant for Indian IT and engineering companies, which can now deploy employees to EU-based clients or projects without the need for full



emigration, fostering a “circular migration” model that combines domestic employment with cross-border skill acquisition [39].

A less visible but strategically vital outcome of the FTA is its impact on European Global Capability Centers (GCCs) in India. India is currently home to over 1,500 GCCs, with a significant proportion owned by EU multinationals including Siemens, Bosch, Airbus, and major European banks [45]. The FTA acts as a force multiplier for these centers, facilitating their transition from cost-arbitrage back offices to high-value innovation hubs.

the digital trade and data governance provisions in the FTA establish a framework for cross-border data flows and prohibits data localization requirements for non-sensitive sectors [3]. For European GCCs, which operate under the strictures of the General Data Protection Regulation (GDPR), this regulatory certainty is essential for processing EU consumer data in India. Furthermore, the agreement's Mode 4 provisions on Intra-Corporate Transferees (ICTs) streamline the movement of high-skilled talent between European headquarters and Indian subsidiaries, granting three-year visas that facilitate the seamless integration of R&D teams[3].

Finally, the strengthened Intellectual Property (IP) regime encourages EU firms to relocate sensitive R&D activities-such as aerospace engineering and drug discovery-to India, secure in the knowledge that patents generated in Indian GCCs enjoy treaty-protected status. By reducing the friction of data, people, and capital mobility, the FTA effectively cements India's position as the primary R&D engine for European industry [25].

4.4 Distributional impacts

The labour-market implications of the India-EU FTA are therefore inherently distributional. The agreement is expected to generate net gains in unskilled employment in export-oriented manufacturing and services, while simultaneously creating strong demand for skilled and semi-skilled labour in technology-intensive and service sectors. The main challenge for policymakers is to manage the transition of workers displaced in import-competing segments into the expanding export-oriented and skill-intensive segments. This requires a well-designed mix of adjustment support (e.g., retraining programmes for workers in textiles and low-end garments) and education-policy reforms to align India's higher-education and vocational-training systems with the skill demands of the FTA-driven economy [4], [6].

In corporate roles, the FTA is likely to create a bifurcation between firms that successfully integrate into EU-centric supply chains and those that remain confined to the domestic or less-integrated markets. For Indian corporations, the FTA provides both a powerful incentive and a structural pressure to upgrade their management practices, invest in technology and innovation, and deepen their international linkages. The labour market will thus witness a long-run tightening of demand for managers and professionals with global-trade and regulatory expertise, while the demand for purely domestic-oriented roles may stagnate or decline [17], [25].

Taken together, the India-EU FTA is expected to deepen India's structural transformation from a predominantly labour-intensive manufacturing base toward a more skills- and services-intensive economy, with important implications for wage structures, employment composition, and the geographic distribution of jobs. The empirical analysis in the following sections will assess these implications through sector-level wage and employment data and by examining firm-level labour-cost structures in key FTA-sensitive sectors.

V. Deep integration: Investments, Procurements, and Regulatory Cooperation

The India-EU Free Trade Agreement (FTA) distinguishes itself from earlier India-EU initiatives and many South-South agreements by embedding a set of “deep integration” provisions that go far beyond conventional tariff-cutting schedules. These provisions institutionalise regulatory alignment, investment protection, and services-mobility rules, creating a framework that shapes not only trade flows but also India's domestic policy space and institutional architecture. This section reviews the key dimensions of deep integration in the agreement, focusing on the Investment Protection Agreement (IPA), government-procurement commitments, and regulatory-cooperation clauses.

5.1 Investment Protection and the Investment Court System

A core deep-integration component of the India-EU FTA is the stand-alone Investment Protection Agreement (IPA), which is designed to replace the largely defunct network of India-EU Bilateral Investment Treaties (BITs) and to address the controversy surrounding traditional Investor-State Dispute Settlement (ISDS) mechanisms [37]. The pre-2016 Indian-BITs, which were largely replaced by the 2016 Model BIT, had been criticised



for creating an asymmetrical legal environment favouring foreign investors and constraining India's policy space in areas such as expropriation, taxation, and environmental regulation [40].

The India-EU IPA introduces a hybrid investment-court-style dispute-settlement mechanism, drawing on the EU's evolving "Investment Court System" (ICS) approach rather than the conventional ad-hoc arbitration panels [32]. Under this framework, investor-state disputes are heard by standing tribunals composed of pre-designated adjudicators, with a clear separation between adjudicators, counsel, and secretariat functions. The ICS-inspired design aims to enhance legal certainty for investors, reduce the risk of conflicting awards, and increase the transparency and accountability of the dispute-settlement process, while also allowing India to maintain explicit carve-outs for essential public-interest regulations [4], [37].

From an economic-policy perspective, the IPA is expected to have three main effects. First, it should reduce the perceived political risk of investing in India, particularly for long-term capital from European pension funds and institutional investors seeking exposure to India's infrastructure and manufacturing sectors [25]. Second, the ICS-style mechanism may act as a form of regulatory harmonisation, nudging India's domestic investment-regulation and expropriation-compensation practices toward EU-style standards [32]. Third, the carve-outs and explicit reservations for public policy (e.g., health, environment, tax) allow India to retain a degree of regulatory autonomy, consistent with the literature on "policy-space-compensated" FTAs [41].

5.2 Government Procurement and Market Access

The India-EU FTA also includes commitments on government procurement, marking a significant departure from India's traditional stance of non-participation in the WTO's Agreement on Government Procurement (GPA) [42]. Under the procurement chapter, India agrees to grant national treatment to EU firms for a specified set of goods and services procured by the central government, subject to thresholds and exclusions [3]. The covered sectors include rail transport, defence-related procurement (excluding certain sensitive items), and public-infrastructure services, while state and local-government procurement remains largely outside the scope of the agreement [3].

For the EU, these provisions create a direct channel for European firms to compete for large-ticket Indian infrastructure and defence-related contracts, which are central to India's long-term capital-formation and technological upgrading

agenda [43]. For India, opening central-government procurement to EU firms introduces an element of international competition into the domestic public-procurement market, which is expected to reduce procurement costs, improve project quality, and promote transparency. However, the agreement's explicit carve-outs for defence and certain social-welfare programmes reflect a cautious balancing of national-security and industrial-policy objectives with the liberalisation agenda [3].

5.3 Regulatory Cooperation: Standards, Sustainability, and Digital Trade

Beyond tariffs and investment, the FTA embeds a broad set of regulatory-cooperation commitments that position India within the EU's regulatory-standard-setting framework. The agreement includes provisions on Sanitary and Phytosanitary (SPS) measures, Technical Barriers to Trade (TBT), and environmental and labour standards, reflecting the EU's "trade-and-sustainability" agenda [29]. The SPS and TBT chapters establish mechanisms for technical dialogue, mutual recognition of conformity-assessment bodies, and cooperation on standards development, which are expected to reduce the non-tariff compliance costs faced by both Indian and EU exporters [3].

The FTA also explicitly links trade liberalisation with sustainability objectives. The EU's Carbon Border Adjustment Mechanism (CBAM) is not suspended, but the agreement creates a framework for technical dialogue and cooperation on carbon-measurement methodologies and the recognition of Indian carbon-verification systems, which may ease the adjustment burden for Indian exporters in carbon-intensive sectors such as steel and cement [4], [29]. At the same time, the agreement's environmental and labour-standards chapters commit both parties to uphold core multilateral obligations, including the International Labour Organization (ILO) conventions and multilateral environmental agreements, without creating a mechanism for trade-related sanctions solely on the basis of these standards [3].

5.4 Geographic Indications and Intellectual Property

The India-EU FTA incorporates a stand-alone agreement on geographic indications (GIs), which is a key element of deep integration in the intellectual-property (IP) domain [3]. Under this framework, the EU recognises a broad range of Indian GIs, including Basmati rice, Darjeeling tea, and Alphonso mango, while India extends protection



to approximately 100 EU GIs such as Champagne, Feta, and Parmigiano Reggiano [4]. The GIs agreement effectively prohibits the use of these terms for generic or non-origin products, which strengthens the EU's and India's ability to extract premium rents based on origin-based branding and quality differentiation [44].

For India, the GI protection of Basmati and other key agricultural products helps to insulate these sectors from generic competition and to reinforce India's reputation as a supplier of high-quality, geographically distinct products [4]. For the EU, the protection of Champagne and other iconic GIs in the Indian market supports the EU's broader strategy of using trade agreements to safeguard European brands and maintain their premium positioning in emerging markets [3].

5.5 Digital Trade and Data Governance

The FTA contains a dedicated digital-trade chapter, which is one of the most advanced of its kind in any India-FTAs to date. The agreement commits both parties to free data flows, with limited exceptions for national security and privacy, and to prohibitions on forced data localisation and on customs duties on electronic transmissions [3]. These provisions are designed to support India's digital-services exports and to provide predictability for EU firms operating in India's rapidly growing digital economy [4].

The digital-trade chapter also includes provisions on cyber-security, consumer-protection, and online dispute resolution, which create a framework for regulatory cooperation in the digital domain. For Indian IT and business-process-outsourcing (BPO) firms, these commitments imply a more stable and rules-based environment for cross-border data flows and digital services, while for EU firms, they provide a predictable framework for engaging with Indian digital-platforms and services [3].

Taken together, the deep-integration provisions of the India-EU FTA-investment protection, government procurement, regulatory cooperation, GIs, and digital trade-illustrate a shift from a purely market-access-oriented agenda toward a rules-based economic partnership. The agreement is likely to exert a long-run influence on India's regulatory practices, standards-setting processes, and investment-regulation framework, with implications for India's industrial policy, technological innovation, and labour-market structure [4], [17]. The empirical analysis in the following sections will assess these effects by

examining India-EU trade-flow and investment-data patterns in the post-FTA era.

VI. Conclusions

The 2026 India-European Union Free Trade Agreement marks a turning point in India's trade policy and the structure of its global economic relations. Rather than a narrow, market-access-driven deal, the agreement is a comprehensive, rules-based partnership that embeds India in the EU's regulatory and technological ecosystem. For both parties, the FTA signals a strategic decision to move beyond purely transactional trade towards a deeper, long-term alignment of economic and security interests. The key lesson from the agreement's structure is that contemporary trade policy is increasingly inseparable from industrial strategy, labour-market outcomes, and geopolitical calculations.

For India, the most immediate benefit lies in the opening of the EU market to labour-intensive exports, particularly in textiles, leather, gems and jewellery, and marine products, where tariffs are largely reduced to zero. This should stimulate employment in export-oriented manufacturing clusters and support the government's industrial and export-growth objectives. At the same time, the services-mobility and investment-protection provisions are likely to generate high-skilled jobs in information technology, engineering services, and financial services, while encouraging foreign direct investment and technology transfer in capital-intensive sectors such as automobiles, pharmaceuticals, and chemicals. The agreement thus accelerates India's structural shift from a predominantly low-value manufacturing base toward a more skill-intensive and services-oriented economy.

For the European Union, the FTA represents a major step in its strategy of diversification away from over-reliance on China in key sectors, including intermediate goods, electronics, and agri-food products. By integrating India into EU-centric supply chains, the EU gains both a more resilient and diversified industrial base and a politically aligned partner in the Indo-Pacific. The regulatory-cooperation and digital-trade chapters, in particular, position the EU as a standard-setting power whose rules on data governance, sustainability, and quality standards will shape Indian firms' production and export practices.

However, the benefits are not without serious challenges. Domestically, India faces the risk of job losses in less-competitive import-competing segments, necessitating active labour-market adjustment policies and skill-upgrading programmes.



The exclusion of core agricultural sectors from liberalization suggests that political pressures will continue to constrain the full realization of welfare gains. For the EU, the main challenge lies in managing the transition of certain low-end manufacturing and service activities, as EU firms face increased competition from Indian exporters once the tariff phasedown is complete.

The way forward hinges on effective implementation. Both parties must ensure that the Investment Court System, procurement commitments, and services-mobility provisions are applied transparently and consistently, so that investors and firms can plan with confidence. Monitoring and evaluation mechanisms should be put in place to track the FTA's impact on trade, investment, and employment, allowing for mid-course corrections where necessary. Looking ahead, the India-EU FTA offers a template for future strategic trade partnerships: an agreement that is both deep in regulation and broad in scope, reflecting the inseparability of trade, industrial policy, and security in the twenty-first-century global economy.

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