

EU-India trade deal: EUR30bn of combined yearly export gains in a fragmented world

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In Summary

- **After signing the EU–Mercosur agreement on 17 January, the EU is looking to speed up its trade policy momentum to diversify trade structures in a more fragmented global economy.** A trade deal with India could be finalized at the EU-India summit this week.
- **The EU and India together represent a substantial global trade block**, with a combined GDP of 21.1%, accounting for one-third of global exports – with complementary trade structures – and 23.4% of the world’s population.
- **A potential EU-India Free Trade Agreement could add USD19.2bn to EU exports each year (an increase of +0.3%), boost EU GDP by +0.1pp annually and offset nearly a quarter of US-related export losses from higher US tariffs despite the current EU-US trade agreement.** The main beneficiaries would be Germany (USD4.8bn), France (USD2.8bn) and Italy (USD2.2bn), while trade diversion would mainly affect China (-USD2.0bn) and the US (-USD0.7bn). India could gain USD11.7bn annually, creating USD9.0bn of new trade and diverting USD2.7bn away from other markets. Overall, we estimate that the EU could compensate for current losses from the US-EU trade deal with USD123bn of additional EU exports from new FTAs if all remaining tariffs across all partners are eliminated.
- **From an industry perspective, Europe could see exports increase in machinery and equipment and transport equipment incl. auto as they are key exports to India with further room to grow, while India could export more textiles and mineral products.** Despite headlines on lower Indian tariffs on cars, the EU auto sector would only get a minor boost in exports (less than USD 50mn). A deal could also result in more trade in chemicals, besides offering significant opportunities in technology and AI-related sectors, where Europe’s capabilities could complement India’s scale and digital workforce. This could support deeper cooperation and more resilient supply chains.

Europe (and India) should strike while the iron is hot

Following the signing of the EU–Mercosur agreement on 17 January, the EU is looking to speed up its trade policy momentum: a deal with India could be finalized as soon as this week. In a rapidly shifting geopolitical environment, the EU is seeking to diversify away from a more protectionist US by accelerating the implementation of alternative trade agreements. After the EU–Mercosur agreement, a deal with India could be finalized at the EU-India summit this week. This would represent a major turning point for European and Indian trade, significantly reducing tariffs and increasing bilateral flows. It could unlock substantial untapped trade potential, deepen strategic and economic ties and reinforce cooperation amid global uncertainties. This would demonstrate a commitment to market diversification and strengthen the long-term economic resilience of both partners, establishing them as two of the world’s largest and most influential trading blocs.

The EU and India together represent a substantial global trade block, with a combined GDP of 21.1%, accounting for one-third of global exports and 23.4% of the world’s population. Trade flows between the two are growing but remain modest relative to other partners. In 2024, India ranked among the top 10 destinations for EU exports with

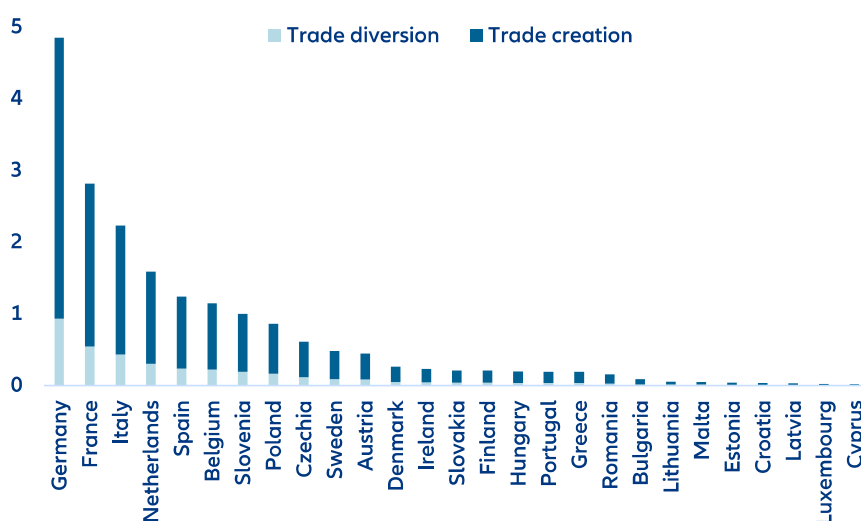
USD52.3bn or 2.0% of EU exports, compared to 21.5% for the US, 13.8% for the UK and 8.5% for China. Conversely, India imported USD48.2bn from the EU (7.3%). The EU is India's second-largest export market after the US, with Europe taking 17.8% of Indian exports. Key EU exports to India include airplanes, diamonds, aluminum, vehicle parts and medicaments, while the EU primarily imports mobiles, petroleum, heterocyclic compounds and medicaments from India.

At the same time, tariff structures between the two blocs remain a major barrier. India currently applies Most Favored Nation (MFN) tariffs on EU imports, which vary by sector: very high for automobiles, moderate for machinery and lower for other industrial goods. Overall, Indian simple MFN tariffs average 15.0%, with agriculture at 24.8% and manufacturing at 11.6%. Meanwhile, following the 2026 suspension of Generalised Scheme of Preferences, EU imports from India now face full MFN tariffs, generally 10–20% higher than under GSP, averaging a 5.2% simple MFN overall, with agriculture at 9.0% and manufacturing at 4.0%. Cutting these tariffs through an EU–India FTA would unlock significant trade potential in both directions, particularly in high-value industrial goods, machinery and pharmaceuticals.

With a comprehensive FTA eliminating tariffs on goods and agriculture, the EU could gain USD19.2bn annually.

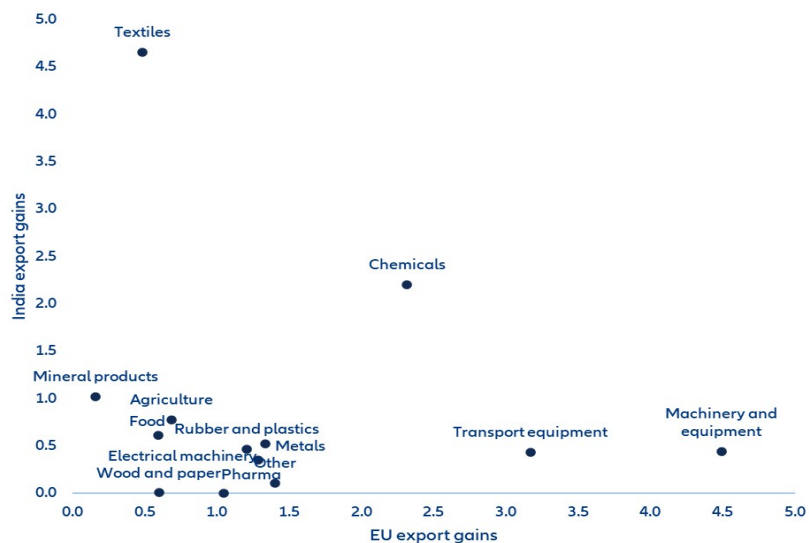
This would mean an increase of +0.3% of EU overall exports relative to 2024 figures, increasing current trade between the EU and India by +14.8%. This would generate new trade worth USD15.5bn and divert USD3.7bn away from other markets. India, on the other hand, could gain USD11.7bn annually, creating USD9.0bn of new trade and diverting USD2.7bn away from other markets. The countries that would lose the most from an EU-India trade agreement are China (-USD 2.0bn, -0.05% of exports), the US (-USD0.7bn, -0.02% of exports) and Japan (-USD0.4bn, -0.04% of exports), followed by the UK (-USD0.3bn, -0.03% of exports), South Korea and Turkey (-USD0.3bn, -0.03% and -0.07% of exports, respectively). However, Bangladesh would lose most in terms of exports (-USD0.2bn, -0.41% of exports). Imports of goods from the EU to India would increase by +46.3% with a deep FTA, meaning the elimination of all tariffs. Within Europe, the economies with the largest existing market share in India would benefit most: Germany (USD4.8bn), France (USD2.8bn) and Italy (USD2.2bn) (Figure 1). From a sectoral perspective, European exports of machinery and equipment, transport equipment including cars and chemicals could increase significantly, while Indian exports to Europe would increase substantially in textiles, chemicals and mineral products (Figure 2). Despite headlines on lower Indian tariffs on cars, the EU auto sector would only get a minor boost in exports. Indeed current exports of cars from the EU to India represent a meagre USD 300-400mn and lowered tariffs would lead to gains below USD 50mn for European carmakers. An agreement would also offer significant opportunities in technology and AI-related sectors, where Europe's advanced capabilities could complement India's scale and digital workforce. This could support deeper cooperation and more resilient supply chains.

Figure 1: Trade gains of EU countries, in USDbn



Sources: Trade Intelligence and Negotiation Advisor (TINA) ESCAP/ECA, UNComtrade, Allianz Research.

Figure 2: Export gains by sector, in USDbn



Sources: Trade Intelligence and Negotiation Advisor (TINA) ESCAP/ECA, UNComtrade, Allianz Research.

Excluding agriculture from tariff cuts would cost the EU and India about USD2bn in export gains each. Challenges remain concerning intellectual property rights, especially for generic pharmaceuticals, as well as data protection and digital trade, where regulatory approaches differ. Agriculture remains a sensitive issue, given India's high tariffs and the political constraints on market access. Excluding tariff cuts in agriculture, a particular sensitive sector, would significantly reduce the benefits for the EU, lowering its annual export gains to USD17.1bn and its GDP gains to +0.1pp. Meanwhile, India would lose around USD2.4bn, reducing its export gains to USD8.7bn.

Can Europe decouple from the US through new trade agreements?

Europe can reduce its dependence on the US by accelerating trade diversification – but not overnight. In a more fragmented global economy, the EU is seeking to balance its trade relations more evenly, shifting focus away from the more protectionist US (which accounts for 21.5% of EU exports) and China (8.5%) to protect its export-driven model, which accounts for over 40% of GDP and about 25mn jobs. Recent momentum, starting with the Mercosur agreement (2.7% of global GDP) and a renewed focus on high-growth markets such as India and Southeast Asia (together accounting for around 10% of global GDP and growing at a rate of 5–7%), shows the EU's intent to secure supply chains and unlock new growth.

New FTAs can offset potential EU-US trade losses quickly. Overall, we estimate USD123bn of additional exports for the EU from new FTAs if all remaining tariffs across all partners, including those covered by existing FTAs, are eliminated. The EU-Mercosur deal signed on 17 January after more than 25 years of negotiation could be provisionally applied – despite EU lawmakers having voted to delay ratification pending a legal opinion from the European Court of Justice last week. This trade agreement alone could increase EU exports by around USD27bn per year (+0.4% in EU exports, Table 1) and add +0.14pp to annual EU GDP, compensating for around a third of the projected losses from EU exports to the US under the higher US tariffs despite the current trade deal (USD78bn annually). The largest gains would come from deepening and bundling agreements by setting all remaining tariffs to zero, even where existing FTAs already exist (i.e. Japan, Canada, Indonesia). Assuming a comprehensive EU-ASEAN agreement, this could generate USD16.7bn in annual EU export gains, increase GDP by +0.1pp and offset about a fifth of EU export losses to the US. Joining CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) would hold substantial gains, but are largely driven by the UK. A CPTPP-style framework that includes the UK could deliver around USD64.8bn in export gains and +0.34pp of annual GDP growth, compensating for more than 80% of EU–US export losses.

However, excluding the UK would result in gains of only USD33.6bn, with GDP growth of +0.2pp and compensation of around a quarter of US-related export losses – still meaningful, but materially smaller. By comparison, a standalone EU-Australia agreement (to be discussed again next month) would only add USD4.7bn to EU trade (+0.02pp to GDP; 6% compensation), though it could be important regarding critical raw materials. Overall, the strategic priority is not just new deals, but full tariff elimination across all trade partners, combined with selective expansion into large frameworks where scale, rather than individual agreements, drives impact and can help the EU reduce concentration risks in a more fragmented and protectionist global economy, diversify its supply chains and boost Europe’s strategic economy while also compensating for losses with a more protectionist US.

Table 1: EU gains from new or deepened FTAs, annually

EU FTA partners	Population in % of global	GDP in % of global	Export increase annual in USDbn	Export increase annual in %	GDP annual in pp	Compensate EU-US trade deal losses in %
MERCOSUR	3.3	2.7	26.9	0.4	0.14	33.9
India	17.8	3.5	19.2	0.3	0.10	24.6
ASEAN	8.5	3.6	16.7	0.26	0.09	21.4
Thailand	0.9	0.5	6.5	0.1	0.03	8.3
Philippines	1.4	0.4	2.1	0.03	0.01	2.7
Malaysia	0.4	0.4	3.7	0.06	0.02	4.8
CPTPP	7.3	14.3	64.8	0.99	0.34	83.1
Australia	0.3	1.6	4.7	0.07	0.02	6.0
UK*	0.9	3.3	31.9	0.48	0.16	40.0

Sources: Trade Intelligence and Negotiation Advisor (TINA) ESCAP/ECA, Allianz Research. Notes: This table shows the maximum potential gains if all applied tariffs were reduced to zero for all products, based on 2024 trade data and assuming the trade agreements were in force in 2026. Export and GDP gains are recurring on an annual basis. Estimates of compensation for losses from a potential EU–US trade war reflect the current scenario, in which the EU would incur losses of USD60bn under the current situation, plus an additional USD73bn from the potential imposition of ‘Greenland tariffs’. For countries marked with an asterisk (*), an agreement with the EU is in place or provisionally applied, but not all tariffs are currently set to zero. The reported gains reflect the hypothetical elimination of all remaining tariffs. ASEAN overall figures includes all members of the trade agreement, including Indonesia*, Vietnam, Laos, Brunei Darussalam, Thailand, Myanmar, Philippines, Cambodia, Singapore and Malaysia. CPTPP overall figures includes all members of the trade agreement, including also Singapore, Brunei, Peru, Vietnam, Japan*, Chile*, Canada*, Mexico* and New Zealand.

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