

# **The EU–India Free Trade Agreement: Symbolism today, substance tomorrow**

*Christian Bürger Senior Editor*

In a ceremony rich with political symbolism in New Delhi, the European Union and India signed a historic Free Trade Agreement (FTA) January 27th, hailed by both sides as the largest and most ambitious deal either has ever concluded. Nearly twenty years in the making, the pact aims to create a free trade zone encompassing roughly two billion people and ushers in far-reaching liberalisation of trade in goods, services, and investment. Beyond tariff cuts, the accord aims to modernise regulatory cooperation, streamline customs procedures, and deepen strategic ties.

The agreement mirrors a global shift: major economies are actively diversifying trade partnerships to reduce vulnerability to US policy volatility and economic coercion. “The agreement reflects a deeper ambition, with both the EU and India pursuing strategic autonomy to navigate the current turbulent global landscape”, says Bert Burger, Principal Economist at Atradius. He adds: “The EU's response has been multifaceted, combining external initiatives with internal regulatory reforms, all aimed at strengthening resilience and autonomy while maintaining openness to global markets. The Indian government's initiatives are primarily driven by pragmatism and its long-standing foreign policy of non-alignment.” For both, the past year has been compounded by the US's inconsistent and often hostile trade stance toward its long-standing partners, ensuring that policymakers will continue to reduce their countries' dependence on the US.

The scale of the FTA is striking: It will eliminate or significantly reduce tariffs on more than 95% of product groups, establishing one of the world's most extensive preferential trade zones and linking two economies that together account for almost a quarter of global GDP. The agreement reflects a deliberate political calculation: both sides excluded agriculture. Europe did so to avoid the kind of backlash that has paralysed the EU Mercosur deal, while India refused to open a sector that still employs nearly half of its workforce. Formal signing is expected within six months, with entry into force likely around a year later. But the text must still undergo legal review, translation and ratification, meaning real world changes will not begin until at least 2027.

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Once fully operational, the FTA will abolish or reduce tariffs on 99.3% of EU exports to India and 96.6% of Indian exports to the EU by value. The EU will scrap duties on 90% of Indian goods — including textiles and leather — immediately. India will eliminate tariffs on 30% of European goods on day one. That said, exporters will face new documentation and regulatory requirements initially. Tariff removal for sensitive products — from processed foods to high end cars — will be phased in over up to ten years. Quotas remain in place for key sectors, and both sides protected their most sensitive industries. The economic effects will be modest for the time being, but the agreement is likely to deepen business links and support long term investment in the long-term.

**More opportunities for EU exporters in major industries**

For Europe, the clearest advantage is a dramatic reduction in India's tariffs on industrial goods, even if the transition stretches over a decade. European producers of machinery, electronics, pharmaceuticals, and aircraft are among the biggest beneficiaries, as India cuts duties ranging from 11% to 44% across a vast share of product lines — tapping into opportunities in a rapidly growing market.

EU machinery and electrical equipment manufacturers will see tariffs rates fall from up to 44% to zero. Demand is already strong and set to rise further in the coming years, in line with India's infrastructure expansion and domestic manufacturing push. At the same time, for strategic reasons, Delhi wants to reduce its high dependency on Chinese machinery and equipment imports.

In the automotive sector, India's notoriously steep 110% tariff on imported cars will drop to 10%, though only for 250,000 vehicles priced above EUR 15,000, while all other imports remain subject to existing barriers. More significantly, India will phase out duties on automotive components within five to ten years — a move that could reshape supply chains and make local assembly far more attractive for European producers. Zero tariffs would enable tiered production strategies in which European automotive suppliers can supply Indian assembly plants without penalty duties. European brands currently hold less than 4% of a rapidly expanding market of 4.4 million vehicles a year.

Premium European food and drink brands — long priced out by punitive tariffs — should finally gain meaningful access to India's growing middle class market. European retailers, meanwhile, stand to benefit from cheaper imports of Indian staples such as tea, spices, and processed foods.

## **India's major wins in market access and competitiveness**

India has secured preferential access for labour intensive sectors, many of which will enter the EU duty free from the outset. Tariff elimination levels the playing field with competitors like Bangladesh, Pakistan, and Vietnam, which already enjoy preferential access to the European market. India gains immediate relief for goods hit by US tariffs, wider access for its IT and business services firms, and a more flexible visa regime for professionals and students. The FTA opens 144 EU services subsectors to Indian companies — the widest access India has achieved in any trade deal. Given India's already substantial services surplus, particularly in IT and business process outsourcing, the benefits could be significant. Textiles and apparel — a cornerstone of India's export engine — will see EU tariffs fall to zero, with reductions of up to 12%. This should boost shipments of yarn, ready-made garments, and home textiles. Leather and footwear duties, currently as high as 17%, will disappear entirely at entry into force.

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Meghna Nair

The agreement is also set to boost India's pharmaceutical industry by helping companies diversify their export markets and gain a stronger foothold in the EU. In recent years, India's pharma exports to Europe have levelled off, largely due to market access hurdles and complex regulatory procedures. The FTA aims to turn this around by streamlining and aligning regulatory requirements, shortening approval times and cutting the administrative costs tied to product registration and licensing.

“Easier and more affordable access to Europe's affluent consumer market will push Indian textile, consumer goods, and food and beverage manufacturers to adopt EU level quality, safety, and ESG

standards,” says Meghna Nair, underwriting expert at Atradius Risk Services in Mumbai. “That shift should massively expand India’s export potential, create jobs, and strengthen its global trade position.”

India’s most substantial gains are expected roughly five years after implementation, as the investment and services chapters begin to take effect. Improved governance, clearer market access, and fresh capital inflows should raise productivity, expand India’s manufacturing base, and promote technology transfer — gradually nudging the economy into higher value segments.

## **The importance of strategic customer credit risk management**

The EU–India corridor holds strong potential, yet execution hinges on how invoices get paid. Our latest Payment Practices Barometer for India highlights that overdue invoices affect nearly two-thirds of all credit-based B2B sales, and bad debts average 7% of the total invoiced B2B turnover. “This signals significant cash-flow and customer credit-risk challenges in the market. Moreover, 72% of Indian businesses expect B2B insolvencies to increase in the coming months, underscoring the importance of strategic customer credit risk management for navigating new trade opportunities,” says Silvia Ungaro, Senior Advisor and expert on business-to-business (B2B) payment behaviour trends at Atradius.

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Silvia Ungaro

Recent trends show that while digital payments and automation are currently improving invoice settlement speed in India, payment discipline and manual processes continue to slow cash flow and strain working capital. “As cross-border trade and supplier integration expand under the agreement, European exporters will need to carefully manage risk to capture growth without compromising cash flow and financial stability,” Ungaro adds.

**To explore how to strengthen your own credit risk strategy, [get in touch](#) with us and see how we can help you stay ahead.**