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The EU-India Free Trade Agreement

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After nearly two decades of intermittent negotiations, the EU and India announced the conclusion of a Free Trade Agreement (FTA) at their summit in New Delhi on 27 January 2026. This paper analyses the geo-political and geo-economic drivers behind the agreement, its principal features and its anticipated economic effects. Against a backdrop of escalating US trade protectionism, the erosion of the multilateral trading system, and shared incentives to reduce strategic dependence on China, both parties found compelling reasons to accelerate negotiations. The FTA provides for asymmetric but substantial tariff reductions – Indian duties on EU goods fall from an average of 16.2% towards zero on 86% of tariff lines, while the EU eliminates tariffs on 99.5% of Indian goods – and broadens market access in services, digital trade and professional mobility. Drawing on model simulations based on the Caliendo-Parro framework applied to the most recent OECD TiVA data, the paper quantifies trade and welfare effects for the EU, India and Austria specifically. It further argues that available model-based estimates represent lower bounds of the likely impact, as they do not fully capture dynamic gains from regulatory convergence, increased foreign direct investment, service liberalisation and enhanced skilled labour mobility. The paper concludes with a discussion of key implementation challenges, including the Carbon Border Adjustment Mechanism (CBAM), the pending Investment Protection Agreement, and the alignment of the EU's industrial strategy with India's industrialisation drive.

1. The geopolitical and geo-economic context

Why the EU-India FTA now?

After a very long period during which trade negotiations between India and the EU had not led to the finalisation of an agreement, resumed negotiations resulted in a positive announcement of an EU-India FTA at a summit in New Delhi on 27 January 2026. Negotiations had originally begun in 2007 and were relaunched in 2022 after years of stalemate. The factors behind the successful completion of this stage of the negotiations (it still requires consent of the European Parliament and a final decision by the Council of the European Union) are as follows:

Trump's use of trade policy as a weapon. Both the EU and India were rattled by the erratic nature of the Trump administration's use of trade policy as a weapon to achieve economic and political aims within the 'Make America Great Again' (MAGA) strategy. The EU and India were exposed to dramatic pressures that revealed that the US might – also in future – follow a policy that would destabilise global economic relations and exploit its bargaining power in its relations even with its allies. As a counterstrategy, this gave rise to a strong incentive to speed up a sequence of bilateral trade agreements with a range of economies.

The shift away from multilateral trade agreements. The Trump tariff hikes came on top of the longer-term trend that encompassed a severe weakening of the World Trade Organization (WTO) as the guardian of a rules-based international trading system oriented towards multilateral trade agreements. The WTO had failed to bring the Doha Round to a successful conclusion, incentivising many of the important global economies to pursue bilateral or regional trade agreements. The inability of the WTO to enforce trade rules (hampered especially by the dysfunctionality of its Appellate Body) further weakened the multilateral system.

Response to the power of China to control vital supplies and trade linkages. The increasingly dominant position of China in global manufacturing production, and the consequent dependence of countries on international production linkages dominated by China, together with its bargaining power regarding the supply of

critical minerals, led the EU and India to look for ways to reduce this dependence and seek to upgrade trade relationships with other economies. The EU-India FTA is one of a series of bilateral agreements either already concluded or in process of negotiation by these parties; given the size of the two partner economies, it is a particularly important FTA.

2. The logic of the EU-India FTA

What does India expect from the EU-India FTA?

India in the aftermath of independence took a generally protectionist approach; its industry was overwhelmingly oriented towards the domestic market and highly regulated (the 'Licence Raj'). This stance changed after India experienced a severe current-account and exchange-rate crisis in 1991, which led to a gradual liberalisation of its economy and a fall in its high tariff walls. The average tariff rate on industrial goods was 80% in 1990, but, even now, average tariff rates are high by international standards (about 17%[1]) and there are very high rates on certain commodities (discussed in greater detail below). Hence the envisaged fall in tariffs in the EU-India FTA is an important step towards further opening up markets, not only for goods but also for services; in the latter, it is not a matter of tariff reduction, but ease of market access.

Until recently, India had remained hesitant to join regional FTAs, such as the Regional Comprehensive Economic Partnership (RCEP) or the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), out of fear that its manufacturing industry might not be able to withstand competition from East Asian economies. However, economic analysts have become increasingly confident in India's ability to withstand competitive pressures, especially in the current context in which India could benefit from diversification efforts away from China.

Another motivation to strike FTAs with the EU and other partners is that India had lost out in certain labour-intensive industries such as textiles, apparel and leather products to countries such as Bangladesh and Vietnam, which had already negotiated better trade deals with advanced economies and thus moved faster to occupy positions in these industries, which have been gradually vacated by China. India is still undergoing substantial rural-urban migration, and a large share of its labour force is under-employed (especially in the agricultural sector), and/or employed in the informal sector with very low wages and irregular labour contracts. Enhancing employment opportunities in labour-intensive sectors is therefore a vital policy goal (Mody, 2023).

Beyond that, it is important to recognise that India is at a stage in its development process that makes it likely that it can significantly benefit from trade liberalisation and stronger integration into international production networks. As international companies attempt to diversify away from China, which had become the global hub for manufacturing, this opens up a window of opportunity to strengthen the position of the manufacturing sector. This sector has long been considered a weak point of India's economic development, especially when compared with Southeast Asian and East Asian economies. Currently, manufacturing in India accounts for only 16-17% of GDP and 27m jobs[2]. India's recognized strength in tradable services (it is the fifth-largest supplier of digital services) could support this effort. India can connect its drive to boost manufacturing production through supporting services linkages as well as further develop its existing strength in international services trade including to further attract outsourcing activities in areas such as IT, financial services and various professional services.

India has a large and growing urban and educated labour force, with the second-largest outflow of STEM graduates (after China) per annum from its educational institutions. This makes it attractive to develop production capacities in India to reap economies of scale and exploit specialisation advantages, not only at the sector level but also within international production networks (IPNs) supplying intermediate inputs. It is true that – in comparison to China – contract enforcement under India's legal system is more problematic, decision-making is less centralised, and complex political interferences make it more difficult to develop large export-processing zones, for example (something that China has done very successfully). Although all these factors act as disincentives to invest in India, they do not outweigh the country's attractiveness – given the size and growth trajectory of its internal market – as an increasingly attractive partner for trade and international production location and diversification in the current geo-economic and geopolitical environment.

The EU-India FTA can be particularly helpful in this respect. European companies and trade relations with Europe can play a role in India not dissimilar to that of Western companies in China's industrial development process since the early 1980s. There is a clear case for exploiting the potential for integration and specialisation in trade and production relationships between Europe and India. Furthermore, some of the issues formerly seen as restrictions to trade flows, such as technical barriers to trade (TBTs), sanitary and phytosanitary (SPS) regulations, and also environmental concerns, can now be seen as a structure of incentives which support India's moves towards improved production upgrading and adapt to environmental constraints.

India traditionally posts a balance-of-payments deficit. It is a net importer of energy and dependent on capital imports. By comparison with successful FDI destinations in emerging economies, India is still weak in longer-term

[1] According to WTO Tariff profiles 2024 (simple average applied MFN).

[2] See UNIDO (2025).

FDI inflows but attractive to portfolio investors, with an active Mumbai stock market. Financial market liberalisation is proceeding slowly, and international banks seeking to operate in the Indian market face significant barriers, as is the case for other advanced international services providers (in legal services, accounting and marketing, for example). This is one of the areas which the EU-India FTA is supposed to address. The prospect of an improved international investment climate supported by an Investment Agreement, which should accompany the EU-FTA deal but which has not yet been negotiated, would further improve India's attractiveness for foreign direct investment.

What does the EU expect from the EU-India FTA?

For the EU, India offers several advantages. India is a large economy with a population of 1.4bn (projected to peak at 1.7bn by 2060) and has a GDP at current exchange rates of USD 4trn (much higher in PPP terms). However, this is much smaller than the EU's GDP, which stood at USD 22.5trn in 2024. India is still much poorer than China: income per capita in India is USD 2,700 at current exchange rates (estimated at USD 9,800-12,800 in PPP terms), while China's income per capita stood at USD 13,800 in 2024, i.e. about five times higher than in India (in PPP terms, China's income per capita is estimated at about USD 27,100)[3].

India has enjoyed a relatively high growth trajectory in recent decades (on average about 6-7% per annum), and – as mentioned above – it is now benefiting from a 'demographic dividend', with many young people joining the labour force (the median age of India's population is 28-29 years, whereas in the EU it is about 45 years). This, of course, also presents a major challenge to provide employment, not least because there is still high potential for further rural-urban migration. However, there is also a significant improvement of human capital – with about 2.5m-3m STEM graduates per annum, second only to China, with women making up 43% of STEM graduates. Hence, although of varying quality, India also provides a high and growing stock of an educated potential labour force. There are (rather optimistic) projections of prolonged growth that could see India become the third-largest individual global economy, overtaking Germany and Japan, by the end of this decade and nearly reaching the size of the EU's economy by 2050.

From the EU's point of view, given the large share of a low-wage, less skilled labour force within India's economy, there is significant scope for sectoral and within-sector specialisation in trade and production relationships in the manufacturing and services sectors. This is in contrast to the trade relationships with China and other East Asian economies, which have become direct competitors in industrial areas which were traditionally Europe's strength (such as capital goods, vehicles and electrical engineering). In addition, China's increased technological strength has seen it assume a dominant position in important 'green technology' areas (solar panels, batteries and electric vehicles) and also overtake Europe in the advanced areas of AI, robotics, etc. Through increased trade integration and specialisation, as targeted by the EU-India FTA, Europe can benefit from the advantages of trading with an emerging economy offering a vast labour force and improving infrastructure and logistics. As already noted, Europe can also greatly benefit from India's strength in increased trade in services and from co-operation in IT, here also relying on the (quantitatively important) supply of a qualified labour force in India. Trade, FDI and labour mobility schemes would all play a role in this and would interact in this push towards stronger integration.

Differences with the Mercosur agreement

It might be useful at this point to examine the contrast in the intensity of the debates around the EU-India and the EU-Mercosur trade agreements. In terms of the size of the current and the envisaged potential trade flows between the EU and the Mercosur countries on the one hand and with India on the other hand, they are broadly similar (see Flórez Mendoza and Moshammer, 2023).[4]

However, the FTA with India faces none of the deforestation controversies that complicate the South American agreement. In addition, Indian industry does not compete directly with European agriculture in the way that Brazilian/Argentinian beef production does. The chapter on agriculture was furthermore negotiated with mutual care that sensitive products (such as sugar, beef and poultry) would be exempted from trade liberalisation or covered by calibrated quotas (as in the case of grapes and cucumbers). Environmental concerns, although present (particularly around the Carbon Border Adjustment Mechanism – CBAM), are envisaged to be managed through technical co-operation, with the aim of avoiding fundamental disputes over land use and climate policy.

Given these differences, we are currently at a stage where we do not know whether the Mercosur deal, despite its important scale, may ultimately fail to achieve ratification – or succeed only after years of additional negotiation over side agreements and environmental protocols. The India deal, by contrast, looks like moving forward relatively smoothly.

[3] See World Bank (2026)

[4] https://www.fiw.ac.at/wp-content/uploads/2026/02/60_FIW_PB_The-EU%E2%80%93Mercosur-agreement.pdf

3. The main features of the EU-India FTA

At the core of the EU-India FTA are significant reductions of tariffs as well as enhanced access to the Indian services market, but also reduced administrative burdens and additional support for SMEs through contact points, provisions to support green transition, deepening co-operation in digital trade, protection of intellectual property rights and a selective opening up of the agri-food sector which protects sensitive areas in both the EU and India.[5] An Investment Protection Agreement is being negotiated as a separate, parallel track rather than being fully integrated into the main FTA. Although the FTA covers investment liberalisation, a separate deal is needed for binding protection. Similarly, the FTA includes a comprehensive 'mobility framework' and a linked mobility and migration agreement. The framework eases movement for Indian students, researchers and young professionals, while providing an assured regime for professionals such as IT and service suppliers to work in the EU.

To discuss the EU-India FTA in more detail, we start with:

The asymmetric reduction of tariffs

Average EU tariffs on Indian imports are 3.8%, while average Indian tariffs on EU imports were 16.2% (simple average for 2024). The EU will eliminate tariffs on more than 90% of tariff lines, and 91% in terms of value, and India will eliminate tariffs on 86% of tariff lines, and 93% in terms of value. Tariffs will be reduced through a combination of immediate elimination and phased reductions over time (five to 10 years). Around 30% of EU imports into India will see immediate zero duties, whereas others, such as imports of car parts and certain machinery, will have tariffs reduced gradually.

Examples of phased tariff reductions include the following:

Indian tariff cuts

- **Automobiles**. Indian tariffs on EU motor vehicles (currently 110%) will be reduced gradually (with an annual quota of 250,000 cars) to 10%, and car parts will see tariffs removed over five to 10 years.
- **Machinery and electrical equipment** (currently tariff up to 44%) and **chemicals** (currently tariffs up to 22%). Half will be liberalised immediately (zero for almost all products), with the remainder subject to phased reductions over 10 years.
- **Optical, medical and surgical equipment** (currently tariffs up to 27.5%) will be reduced to zero for 90% of the products over a period of up to 10 years.
- **Cosmetics** (current tariffs up to 22%) and **plastics** (up to 16.5%) will be removed for almost all products after five to seven years.
- **Alcoholic beverages** are currently subject to very high tariffs, reaching 150% for wines, up to 150% for spirits and 110% for beer. These will be reduced over time to 30% for most wines, 40% for all spirits and 50% for beer.
- **Processed foods** (breads, pastries, biscuits, pasta, chocolate) currently face tariffs of up to 50%, as do **fruit juices**. Tariffs will be eliminated, partly when the FTA comes into force and partly in stages thereafter.

EU tariff cuts

- The EU will cut tariffs on 99.5% of goods from India over a seven-year period.

Compliance with TBTs and SPS, and technical supports

Although tariff rates are considerably higher in India than in the EU, the technical barriers to trade (TBTs) and sanitary and phytosanitary (SPS) standards in EU markets are significant thresholds with which exporters from India to EU have to comply.

The FTA incorporates a commitment that all imports from India to the EU will continue to be subject to the EU's health and safety rules, with no exceptions. The same is true for compliance with TBTs. Both commitments will be subject to the bilateral settlement dispute mechanism[6] agreed under the FTA. Apart from this, there are provisions for co-operation on strengthening policies and in the formulation of programmes that support the development of sustainable, healthy and resilient food systems, as well as co-operation in the implementation of the provisions with regard to TBT compliance. For example, the FTA plans to create a dedicated Working Group on Conformity Assessment, tasked with addressing issues related to the assessment procedures; furthermore, it provides for transparency procedures, such as the requirement for 60 days of public consultation on new technical regulations, and six months between their publication and their entry into force. The agreement also prioritises dialogue to align regulatory regimes, particularly focusing on reducing the burden of Indian certification requirements on EU exporters and addressing European environmental regulations, which can act as a technical barrier for Indian exporters.

Prospects for a complementary investment agreement

Although negotiations on the FTA have concluded, the separate Investment Protection Agreement has yet to be agreed. This aims to provide investors with a

[5] For the current text of the agreement, see https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/india/eu-india-agreements/text-agreements_en

For a summary overview of the various chapters covered in the text, see: https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/india/eu-india-agreements/memo-eu-india-free-trade-agreement-chapter-chapter-summary_en

[6] The 'dispute settlement mechanism' will address compliance with the provisions of the FTA, with decisions made by independent panels. Panel reports will be binding and can be enforced through suspension of concessions.

'predictable and secure investment environment', through commitments on non-discrimination; protection against expropriation without compensation and unfair treatment of investors and their investments, while preserving the right to regulate; and transfer of returns.

Parties have also yet to agree on a dispute settlement mechanism to enforce such rules. It is likely that negotiations are lagging due to India's Bilateral Investment Treaty (BIT) reforms, which remain ongoing, and the EU's need for ratification by all 27 member states.

4. Estimating the economic effects of the EU-India FTA

EU goods imports from India stood at EUR 71bn in 2024, and EU goods exports to India reached EUR 49bn. EU services imports from India amounted to about EUR 34bn in 2024, and EU services exports to India stood at EUR 26bn. The EU thus had a deficit in trade with India.

There are a number of estimates by different research teams of both the aggregate and sectoral economic impacts of the EU-India FTA.[7]

4.1 Some caveats on modelling the effects of the EU-India FTA

Before presenting some of these findings, we should mention some caveats regarding the model-based estimates that are currently available.

In the first instance, most models are just international trade models. They thus capture well the impact which tariff reductions by trading partners would have (given price elasticity-driven responses to these tariff cuts) on import and export flows. These effects include 'trade diversion' effects, resulting from the fact that reductions in trade costs between bilateral partners would lead to a reorientation of trade from other trading partners which keep their tariff structures constant.

In the case of the EU-India FTA, there are very important trade diversion effects. For example, India's imports from China would drop by 5-6 percentage points[8], as India's economy, particularly its industrial sector, is highly dependent on the supply of Chinese inputs, and EU producers could substitute to a certain extent for these. Of course, the EU-India FTA is not happening in a vacuum, as very important changes in the India-US and the EU-US trade regimes are taking place. In each case, the impact of the increased tariff barriers which the US has imposed on India and the EU adds to the trade diversion effects, as these incentivise the EU's and India's trade relationships with each other independently of the direct effects of the EU-India FTA.[9]

The current generation of trade models are sophisticated in that they include the impact of changes in (bilateral) tariffs across international production networks, i.e. on the complex global supply chains that characterise international trade relationships. Thus, we are quite confident that these reorientations of international production networks induced by tariff changes are reasonably well captured, although such adjustment processes might take time.

Let us turn to the areas which are not at all or insufficiently captured by these modelling exercises and which are nonetheless very important to assess the impact of a complex agreement such as the EU-India FTA. There are three issues we want to emphasise which can all be very important in assessing the overall impact of the FTA. Their neglect or insufficient capture means that current estimates of the effects are most likely lower bounds of the FTA's impact both at the aggregate and the sectoral level:

First, easing trade flows affects the incentive to invest in each other's markets. Current model estimates of capturing the effects of the EU-India FTA do not simultaneously capture the impact of reductions in tariffs (and non-tariff measures – NTMs) on trade and the FDI effects induced by the agreement which in turn can affect trade flows, most probably in a positive direction. There is a counterargument which is also part of the literature; it pertains to the 'tariff-jumping' motive of FDI, so that a decrease in tariffs would have a negative impact on FDI as demand could be satisfied through exports. But on balance, reducing trade costs or facilitating market access in other ways encourages FDI and thereby increases trade flows, especially in a situation with a high potential of vertical trade specialisation in the context of international production chains.

Second, various forms of market access, such as 'red tape' regulatory barriers for foreign companies to export to a market or set up production operations, are difficult to capture in modelling exercises. There are ways to do this, but this has either not been included in the available modelling exercises of the EU-India FTA or, if attempted (at times, very crudely), then one has to judge carefully the methodology applied. This is particularly important for the expected impact on services trade.

[7] See: https://www.kielinstitut.de/fileadmin/Dateiverwaltung/IfW-Publications/fis-import/82e3902e-610e-46e7-9176-83e37af0d5ab-KPB202.pdf
https://www.europarl.europa.eu/RegData/etudes/STUD/2020/642841/EPRS_STU(2020)642841_EN.pdf
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https://www.ifo.de/DocDL/ifo_Forschungsberichte_80_2017_Felbermayr_etal_Europe_India.pdf

[8] Estimated by the Kiel Institute; see Hinz et al. (2026).

[9] The Kiel Institute's study (Hinz et al., 2026) looks at scenarios in which the US imposes different tariff regimes on India at the same time as the implementation of an EU-India FTA.

Linked to this is the issue of estimating the effects of TBTs and various forms of NTMs. As discussed above – as it is part of the agreement – the EU's TBTs and SPS measures will be fully applied, but support will be given to Indian companies to adjust and comply with the EU's rather stringent regulatory structures. Hence over time one expects a degree of 'regulatory convergence', with NTMs potentially acting not so much as barriers but more as facilitators of trade, as an increasing segment of companies will adjust and be supported to fulfil the requirements of these regulations.[10]

Third, the impact of the ease of labour mobility, and specifically that of skilled personnel, will be an important aspect of liberalised relationships between India and the EU. It is well established in the literature that easing mobility of labour and especially of skilled personnel can be an important complementary factor in encouraging and facilitating increased trade relationships (and also FDI). Again, the currently available modelling exercises do not include this component of potential liberalisation effects interacting with trade and FDI impacts. In the case of EU-India relationships, this factor might be particularly important in IT services, which is an important sector in the Indian economy with a large well-trained labour force available to be employed not only in India but also abroad, and which could contribute to intensified trade relationships and co-operation.

4.2 Important sectoral impacts

Sectoral effects for the EU

Machinery and capital equipment. Industrial machinery and capital goods form a core European export competency. India's expanding manufacturing base, driven by Production Linked Incentive (PLI) schemes and the Make in India initiative, increasingly demands precisely the sophisticated production equipment that German, Italian, Austrian and other European engineering firms produce. As India industrialises, the EU-India FTA positions European suppliers favourably.

Motor vehicles. Even a 50% tariff cut from India's prohibitive 110% base rate represents a meaningful market opening. India sold more than 4m passenger vehicles in 2024, making it the world's third-largest car market. Although European companies are already well represented in the Indian market, the tariff reductions, albeit partial, will make European vehicles accessible to a much larger segment of India's growing middle class. Car component suppliers will also benefit.

Chemicals and precision instruments. The EU has strong comparative advantage in high-value specialty chemicals, scientific instruments and precision manufacturing. India's growing industrial and research base increasingly demands these sophisticated inputs.

Wine, spirits and food products. Although economically smaller than industrial categories, European wine and spirits producers will gain meaningful access to India's expanding consumer market. India's middle class (variously estimated to number between 100m and 300m) will readily react through increased consumer spending on imported premium products. Of course, there will also be increased local production through licence agreements.

Sectoral effects for India[11]

IT and professional services. The FTA provisions regarding services trade (improved market access), combined with the parallel mobility agreement facilitating movement of professionals, could substantially strengthen India's producers' presence in the European market. India is already a major global provider of IT services. The country ranked fifth in the world for digital services in 2024, with its global exports of these valued at USD 270bn. But the European market has been more difficult to penetrate than the US, owing to regulatory barriers and restrictions on professional mobility. The EU-India FTA would change this situation.

Textiles and apparel. With EU tariffs of 8-12% eliminated, Indian garments would become substantially more price-competitive, levelling the playing field with Bangladesh and Vietnam. India's apparel exports totalled around USD 15.7bn in 2024, and the sector remains a crucial employer, particularly of women in rural and semi-urban areas. The EU imports textiles to a value of almost USD 125bn annually; India currently holds only 5-6% of that market, compared with 30% for China. Tariff elimination could significantly boost India's share.

Pharmaceuticals. India is the world's largest producer of generic medicines by volume (it exported USD 23.4bn in 2024 in value). Tariff elimination combined with streamlined regulatory procedures and mutual recognition agreements would boost Indian pharmaceutical sales in Europe, building on the reputation Indian manufacturers gained during the COVID-19 pandemic, when they supplied vaccines and treatments globally. Moreover, chemical exports would receive a significant boost.

Agriculture. Politically sensitive products are excluded from tariff reductions on both sides. The EU maintains its tariffs on Indian beef, sugar, rice, chicken, milk powder, honey, bananas, wheat, garlic and ethanol. However, India gains quota-based access for sheep and goat meat, sweetcorn, grapes, cucumbers, dried onions and rum. European geographical indications are not yet protected in India; a separate agreement remains under negotiation.

[10] For an interesting study that attempts to estimate the effects of 'regulatory gaps' and of 'regulatory convergence', see Ghodsi and Santeramo (2026).

[11] See World Bank Open Data: https://data.worldbank.org for figures referred to in this section.

5. The implications for Austria's economy

5.1 Current trade patterns

India is the world's fifth-largest economy, with a 3.3% share of global GDP and one of the highest growth rates.[12] With a share of 2.7% in global exports of goods and services including intra-EU trade, and 3.3% excluding intra-EU trade, India ranks in eighth place.

In Austrian exports, India has a share of 0.6%, ranking it in 29th place including intra-EU trade; without intra-EU trade, India's share is 1.5%. Conversely, Austria's share of India's exports is 0.3%. Accounting for the importance of exports in terms of GDP, one has to consider that exports are partly produced with imported intermediary inputs. Value-added exports in Austria amount to 37.6% of GDP, of which the equivalent of 0.4% of GDP is attributable to final demand in India, which includes value chain trade, i.e. Austrian exports to any country which are then further processed to be finally consumed in India. India therefore accounts for about 1% of Austria's value-added exports.

The share of Austrian exports to India from goods-producing industries (NACE A to E) amounts to about 53%, with the remaining 47% coming from services industries. Conversely, 62% of Austrian imports from India originate from Indian goods industries, while 38% come from Indian services industries.

Figure 1 shows the level of Austrian trade with India. The top five Austrian manufacturing industries exporting to India are:[13]

- machinery and equipment (C28), with 10.5% (USD 156.4m) of total Austrian exports to India;
- electrical equipment (C27), with 6.4% (USD 95.5m);
- computer, electronic and optical products (C26), with 6.2% (USD 92.3m);
- chemicals and chemical products (C20), with 5.2% (USD 78.2m); and
- basic pharmaceutical products and pharmaceutical preparations (C21), with 3.2% (USD 48.1m).

Stehrer (2026) documents that, based on Austrian firm-level data, in 2022 there were more than 1,400 firms exporting around 2,500 products at the CN 8-digit level to India, and around 4,400 firms importing more than 3,600 products from India.

Services industries also account for a significant share of Austrian exports to India. The top five Austrian services industries exporting to India are:

- professional, scientific and technical activities (M), with 11.7% (USD 175.2m) of total Austrian exports to India;
- transport industries (NACE H), with 10.3% (USD 153.3m);
- computer programming and information service activities (J62_63), with 2.7% (USD 39.9m);
- accommodation and food service activities (NACE I), with 2.5% (USD 36.8m); and
- financial and insurance activities (K), with 2.2% (USD 32.6m).

In terms of Austrian imports, the most important Indian exporting manufacturing industries are:

- textiles, wearing apparel, leather and related products (C13T15), with 14.9% (USD 305.6m) of total Indian exports to Austria;
- furniture, other manufacturing, repair and installation of machinery and equipment (C31T33), with 8.0% (USD 164.7m);
- other transport equipment (C30), with 5.3% (USD 107.0m);
- machinery and equipment n.e.c. (C28), with 4.6% (USD 93.8m);
- chemicals and chemical products (C20), with 4.3% (USD 89.1m);
- computer, electronic and optical products (C26), with 3.2% (USD 65.6m).

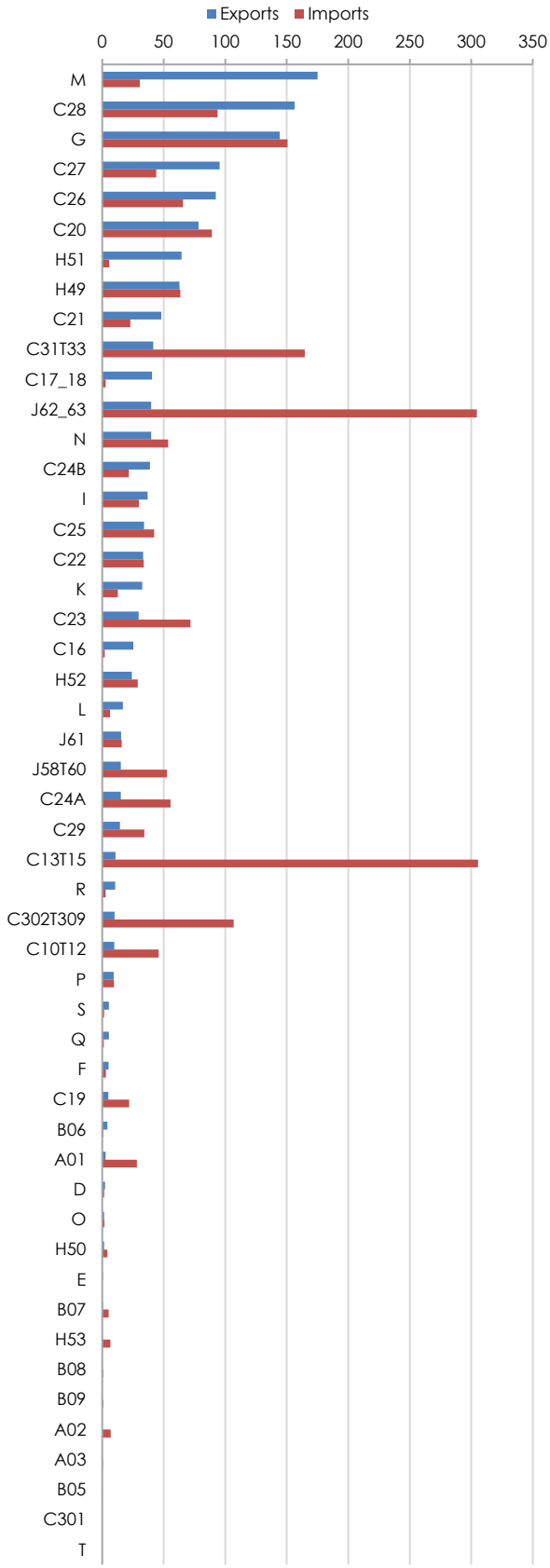
Among services imports:

- computer programming and information services activities (J62_63) account for 14.8% (USD 304.5m) of the total.
- Publishing, Motion picture, video, television programme production and broadcasting activities (J58T60) with 2.1% (USD 52.8m).

[12] The figures presented here are calculated from OECD TiVA data (revised release, January 2026) for benchmark year 2022. The most recent IMF data indicate that India's share in global GDP has risen to 3.7% in 2025.

[13] For goods trade, in 2025 Austria imported goods to a value of EUR 1.478bn from India and exported goods to a value of EUR 1.485bn to India (see Statistik Austria, 2025).

Figure 1: Austrian exports to and imports from India, USD m, 2022 (ranked by value of Austrian exports)



Note:

M	Professional, scientific and technical activities
C28	Manufacture of machinery and equipment n.e.c.
G	Wholesale and retail trade; repair of motor vehicles and motorcycles
C27	Manufacture of electrical equipment
C26	Manufacture of computer, electronic and optical products
C20	Manufacture of chemicals and chemical products
H51	Air transport
H49	Land transport and transport via pipelines
C21	Manufacture of basic pharmaceutical products and pharmaceutical preparations
C31T33	Manufacture of furniture; other manufacturing; repair and installation of machinery and equipment
C17_18	Manufacture of paper and paper products; Printing and reproduction of recorded media
J62_63	Computer programming and information service activities
N	Administrative and support service activities
C24B	Manufacture of basic precious and other non-ferrous metals
I	Accommodation and food service activities
C25	Manufacture of fabricated metal products
C22	Manufacture of rubber and plastic products
K	Financial and insurance activities
C23	Manufacture of other non-metallic mineral products
C16	Manufacture of wood and of products of wood and cork
H52	Warehousing and support activities for transportation
L	Real estate activities
J61	Telecommunications
J58T60	Publishing, Motion picture, video, television programme production and broadcasting activities
C24A	Manufacture of basic iron and steel
C29	Manufacture of motor vehicles, trailers and semi-trailers
C13T15	Manufacture of textiles, wearing apparel, leather and related products
R	Arts, entertainment and recreation activities
C302T309	Manufacture of other transport equipment
C10T12	Manufacture of food products; beverages and tobacco products
P	Education
S	Other service activities
Q	Human health and social work activities
F	Construction
C19	Manufacture of coke and refined petroleum products
B06	Extraction of crude petroleum and natural gas
A01	Agriculture and hunting
D	Electricity, gas, steam and air conditioning supply
O	Public administration and defence; compulsory social security
H50	Water transport
E	Water supply; sewerage, waste management and remediation activities
B07	Mining of metal ores
H53	Postal and courier activities
B08	Other mining and quarrying
B09	Mining support service activities
A02	Forestry and logging
A03	Fishing and aquaculture
B05	Mining of coal and lignite
C301	Building of ships and boats
T	Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use

Source: OECD TiVA; wiiw calculations.

5.2 Results from model simulations of the EU-India FTA

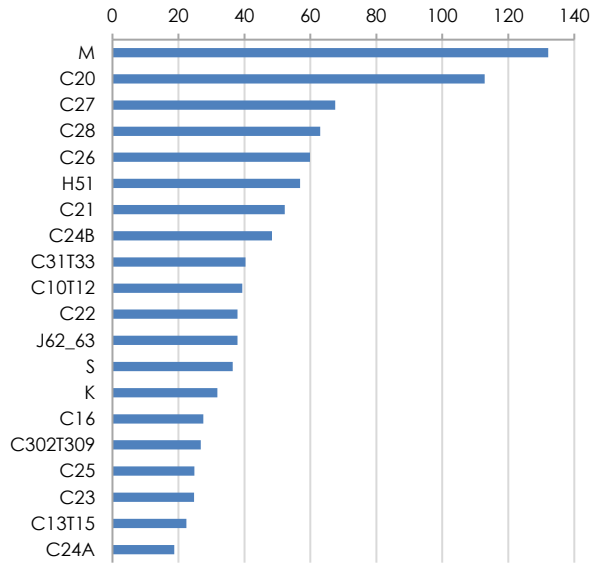
The EU-India FTA results in mutual export opportunities and positive impacts on income and welfare. Using a Caliendo-Parro framework applied to the most recent OECD TiVA data (revised release, January 2026) for benchmark year 2022, we focus on the implications of tariff reductions and model the impacts of mutual tariff reductions. Average initial tariffs in goods-producing industries are around 15% for Indian tariffs on EU imports, compared with less than 2% for EU tariffs on imports from India. The largest Indian tariffs are in manufacture of food products, beverages and tobacco products (C10T12), at 41%, and manufacture of motor vehicles, trailers and semi-trailers (C29), at 33%.[14]

In our simulations, we assume that EU tariffs on imports from India are set to zero. Indian tariffs on imports from Europe are also set to zero, except for manufacture of motor vehicles, trailers and semi-trailers (C29). For this industry, we reduce tariffs to 20% to account for the quota rules implemented in the agreement. In addition, we model cost reductions for services industries water transport (H50), air transport (H51), publishing (J58T60), IT (J62_63), finance (K) and professional services (M) by 10%, capturing easier market access.[15]

The results point to mutual gains[16]. Real income (welfare) would increase by 0.12% in India, by 0.04% in the EU and by 0.02% in Austria.[17] Indian exports to the EU would grow by 11.6%, while EU exports to India would grow by 88.3%. Indian exports to Austria would grow by 15%, while Austrian exports to India would increase by 75.8%. Considering goods-producing industries only (NACE A to C), Austrian exports to India would roughly double under this scenario. Given the relatively small share of Austrian exports going to India, however, overall Austrian exports would increase by no more than 0.4%.

Overall exports to India would increase by almost USD 1bn, Figure 2 shows the 20 industries that would post the strongest gains in terms of exports (which account for about 95% of overall increases in exports to India). The industries with the largest gains in absolute terms are: professional services (M), which captures 12.9% of the overall increase in exports; chemicals (C20), with 11%; electrical equipment (C27), with 6.6%; machinery (C28), with 6.2%; and electronics (C26), with 5.9%.

Figure 2: Change in exports to India for top 20 gaining industries, USD m



Note:

M	Professional, scientific and technical activities
C20	Manufacture of chemicals and chemical products
C27	Manufacture of electrical equipment
C28	Manufacture of machinery and equipment n.e.c.
C26	Manufacture of computer, electronic and optical products
H51	Air transport
C21	Manufacture of basic pharmaceutical products and pharmaceutical preparations
C24B	Manufacture of basic precious and other non-ferrous metals
C31T33	Manufacture of furniture; other manufacturing; repair and installation of machinery and equipment
C10T12	Manufacture of food products; beverages and tobacco products
C22	Manufacture of rubber and plastic products
J62_63	Computer programming and information service activities
S	Other service activities
K	Financial and insurance activities
C16	Manufacture of wood and of products of wood and cork
C302T309	Manufacture of other transport equipment
C25	Manufacture of fabricated metal products
C23	Manufacture of other non-metallic mineral products
C13T15	Manufacture of textiles, wearing apparel, leather and related products
C24A	Manufacture of basic iron and steel

Source: wiiw calculations.

[14] Tariffs at a more detailed industry level, or for specific products, can be even higher.

[15] This is only a very approximate method to implement the NTM reductions in services trade, which would need a more sophisticated approach.

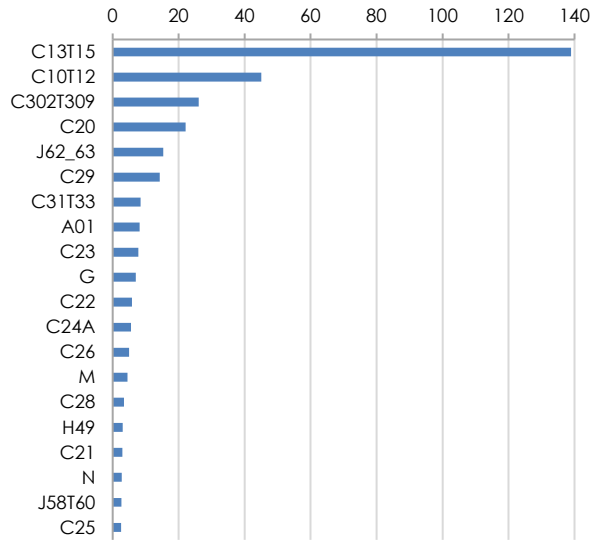
[16] The simulations show the general equilibrium effects of a change in tariffs. One has to keep in mind that the negotiated trade policy measures in the FTA are implemented over a time span between 5-7 years and these welfare gains arise only in the medium to long run. As a rule of thumb, considering the various adjustment processes which will take place as a result of these measures of liberalisation, one should think of a 7-10 years' perspective over which these cumulative impacts of the FTA agreement would take effect.

[17] Considering only the real income effect in India, the gains would be 0.05%; the difference to the overall welfare effect is driven by reductions in tariff revenues.

Figure 3 shows the changes in Austrian imports from India, which would increase by about USD 350m. The five manufacturing industries with the largest increases in imports are: textiles (C13T15); food products, etc. (C10T12); other transport equipment (C30); chemical products (C20); and manufacture of motor vehicles, trailers and semi-trailers (C29).

Imports in computer programming and information service activities (J62_63) would also increase significantly.

Figure 3: Change in imports from India for top 20 industries, USD m



Note:

C13T15 Manufacture of textiles, wearing apparel, leather and related products
C10T12 Manufacture of food products; beverages and tobacco products
C302T309 Manufacture of other transport equipment
C20 Manufacture of chemicals and chemical products
J62_63 Computer programming and information service activities
C29 Manufacture of motor vehicles, trailers and semi-trailers
C31T33 Manufacture of furniture; other manufacturing; repair and installation of machinery and equipment
A01 Agriculture and hunting
C23 Manufacture of other non-metallic mineral products
G Wholesale and retail trade; repair of motor vehicles and motorcycles
C22 Manufacture of rubber and plastic products
C24A Manufacture of basic iron and steel
C26 Manufacture of computer, electronic and optical products
M Professional, scientific and technical activities
C28 Manufacture of machinery and equipment n.e.c.
H49 Land transport and transport via pipelines
C21 Manufacture of basic pharmaceutical products and pharmaceutical preparations
N Administrative and support service activities
J58T60 Publishing, Motion picture, video, television programme production and broadcasting activities
C25 Manufacture of fabricated metal products

Source: wiiw calculations.

One should keep in mind that the trade model on which these estimates of the effects of the EU-India FTA are based captures these effects only partially (see Section 4.1). The model focuses – in line with most model estimates – on the reduction of tariffs, and in this respect it should be reasonably accurate as it estimates the direct and indirect effects of the implied price/competitive effects of reductions in tariffs. Because the starting values of tariffs diverge widely across sectors, we see the different sectoral impacts. Focusing mostly on tariff reductions also means that the aggregate and sectoral effects on EU exports to India are more pronounced than the impacts on Indian exports to the EU. This stems from the much higher starting tariff levels in India.

However, apart from putting Indian exports to the EU in labour-intensive industries (such as textiles, apparel and footwear) on an equal footing with countries such as Bangladesh and Vietnam through tariff reductions, the main effects for India should come from upgrading the ability of companies to comply with EU regulatory frameworks (NTMs such as TBTs and SPS as well as environmental safeguards). For this, there are provisions in the FTA to support the process of compliance through measures relating to technical assistance, transparency, working groups etc. This should support a process of 'regulatory convergence', which could be seen as one of the rationales of why the agreement is important for India's industrial development strategy.

Linked with this is the issue of the impact which the push towards trade liberalisation would also have on increased investment activity by EU companies in India and by Indian companies in the EU. This, in turn, would further intensify trade linkages. Here the additional conclusion of an Investment Protection Agreement will be important, as will the active encouragement of the use of improved mobility schemes for skilled personnel, easier access for professional service providers, and co-operation in digital trade, all of which are provided for in the FTA. Global trade relations combine the interaction between services and goods trade through value chain integration, and the potential for this is particularly strong given India's strengths in tradable services in general and in the digital/IT area specifically.

In summary, it is important to note that the above estimates, which focus on the effects of tariff reductions, should be seen as lower bounds for the beneficial impacts of the EU-India FTA. This is because other aspects – such as the impact of adjusting to regulatory environments, and the interaction over the trade-investment-mobility nexus – are at this stage difficult to estimate quantitatively, but are likely to be substantial.

6. Conclusions: further policy agendas in the implementation process

Dealing with CBAM

The EU-India Free Trade Agreement (FTA) does not provide an exemption from the EU's Carbon Border Adjustment Mechanism (CBAM). CBAM imposes carbon costs on carbon-intensive imports such as steel, aluminium, cement and fertilisers, taking full effect in 2026. The agreement includes provisions for technical dialogue to assist Indian producers in complying with CBAM and potentially recognising India's domestic carbon pricing mechanisms. The EU has pledged technical support and potential financial backing, such as the EUR 500m Green Transition Assistance package, to help Indian industries to reduce emissions.

It will be important to co-ordinate the implementation of the CBAM provisions (which are currently further adjusted from the EU side) with the FTA implementation. There are significant export categories in which Indian producers will need time to adapt to European carbon pricing by setting up and implementing their own ETS (Emissions Trading System). The EU should ensure that CBAM implementation schedules are co-ordinated with FTA tariff phase-in; technical assistance in the course of the implementation of the FTA should help Indian producers to measure and reduce their carbon intensity, and thus support the envisaged industrial transformation process in India.

The EU's industrial strategy, India's industrialisation drive and the EU-India FTA

As discussed in Section 1, the EU-India FTA has been concluded amid a particular geopolitical context and during a period in which the EU has major concerns regarding the longer-term viability of its manufacturing industry. In this context, the EU has embarked on a series of industrial policy initiatives, the most recent of which is the EU's Industrial Accelerator Act.[18] That legislation reflects changes which the EU's industrial policy strategy is undergoing, given increased competition from China, recurring energy crises and the challenges involved in remaining at the forefront of innovation. For its part, India aims to exploit the window of opportunity provided by the strategic decisions by major powers (and companies) to diversify away from dependence on China to pursue its own industrialisation drive and also make inroads towards its own 'green transition'.

There are many complementarities between these two strategies, such as the support European companies can give to support India's green transition; the potential to co-operate, especially in the area of digital technologies; the diversification drives to reduce dependencies on China; the scope for inter-industry and intra-industry specialisation; and the integration of value chains including service and material production activities.

One specific area where opening partnership agreements between the EU and India might be of great mutual interest is access to public infrastructural investments. In recent years, India has invested heavily in infrastructural projects such as highways, airports and port facilities, but also in renewables, urban development and metro systems etc. In the 2026 financial year alone, about USD 126bn is allocated to a variety of infrastructural projects. Access to and increasing participation in such projects will be of great interest for European companies as the infrastructural investment drive is likely to persist over the coming decade(s). The Industrial Accelerator Act, on the other side, provides entry points for countries with EU trade agreements – such as those already in existence with Japan, South Korea and Turkey – to be eligible for public contracts and subsidies, provided that their home countries offer EU origin products equivalent access in return. Mutual participation of European companies in India and of Indian companies in the EU in public infrastructural investments would thus be highly desirable.

Implementing the FTA, concluding the Investment Protection Act and making full use of mobility schemes

Any trade agreement will only yield the desired results if the provisions contained in it are made use of by both private and public actors. Public initiatives need to actively support the private sector through trade promotion efforts via EU and national chambers of commerce, delegations to India, and targeted support for European SMEs that may lack resources to independently explore the highly differentiated Indian market.

In the near term, such initiatives are likely to catalyse increased bilateral trade flows, encourage the integration of value chains by exploiting mutual specialisation advantages through sourcing and – in certain instances – relocation of production activities to India. Meanwhile, adjustments to regulatory contexts can be supported, technical assistance provided, regulatory dialogue and convergence encouraged, and unfair market dominance by local incumbents overcome.

In the medium to long term, if the EU and India can bridge their differences on investment protection and conclude a balanced Investment Protection Agreement that reconciles India's regulatory priorities with the EU's demand for investor certainty, and if the scope for mobility of qualified personnel can be exploited, the EU-India economic partnership could evolve into one of Europe's most important agreements.

[18] https://single-market-economy.ec.europa.eu/publications/industrial-accelerator-act_en

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