

JANUARY 2026

# EU-India trade deal: a sign of shifting global trade winds?

The European Union and India have agreed “the mother of all trade deals”<sup>1</sup> at a time of upheaval in global economic relations.

## What has happened?

The European Union and India on 27 January announced a free trade agreement (FTA) which will eliminate or reduce tariffs on over 90% of EU goods exports and save around EUR 4 billion in annual customs payments as well as reducing paperwork, according to EU Commission briefings.



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## Key takeaways

- The EU-India free trade agreement is similar in size to the EU’s recent deal with South American nations and is further evidence that the EU has turned to “Realpolitik” during a period of weakness in the traditional multi-lateral global trade framework.
- During a time of geoeconomic upheaval, we think the deal is the latest sign of countries seeking to spur economic development and effectively form a resilient web of free trade agreements around the US and China.
- As economies seek to diversify their trade links to reduce concentration risks, we see signs of investors taking the same approach with their portfolios. In our view, emerging market equity and debt stands to benefit gradually, as do European assets, over time.

<sup>1</sup> European Commission president Ursula von der Leyen, 27 January.

## EU impact

The FTA covers a similar amount of EU goods trade as the EU-Mercosur<sup>2</sup> agreement signed earlier in January (EUR 120bn in 2024 for India versus EUR 111bn for Mercosur). However, while EU-Mercosur trade has been roughly balanced so far, India runs a sizeable surplus with the EU (EUR 22bn in 2024), skewing the advantages potentially in India’s favour. But while the economic potential of the deal is large, it will probably take time to materialise.

## India impact

India has emerged as one of the key beneficiaries of this evolving trade architecture. Over the past year, India has actively deepened its trade and investment links through a string of bilateral agreements. In addition to the FTA with the EU – concluded in principle in early 2026 after two decades of negotiations – India has finalised comprehensive trade pacts with partners such as the United Kingdom, Switzerland (via the European Free Trade Association), New Zealand and Oman. These agreements are not only enhancing market access but also reducing overdependence on any single trading bloc.

In the Middle East, India’s Comprehensive Economic Partnership Agreement (CEPA) with the UAE – operational since 2022 – has already produced measurable results: bilateral trade surged nearly 20% in the full-year 2024–25

to exceed USD 100bn, and both countries have committed to doubling non-oil trade by 2030.

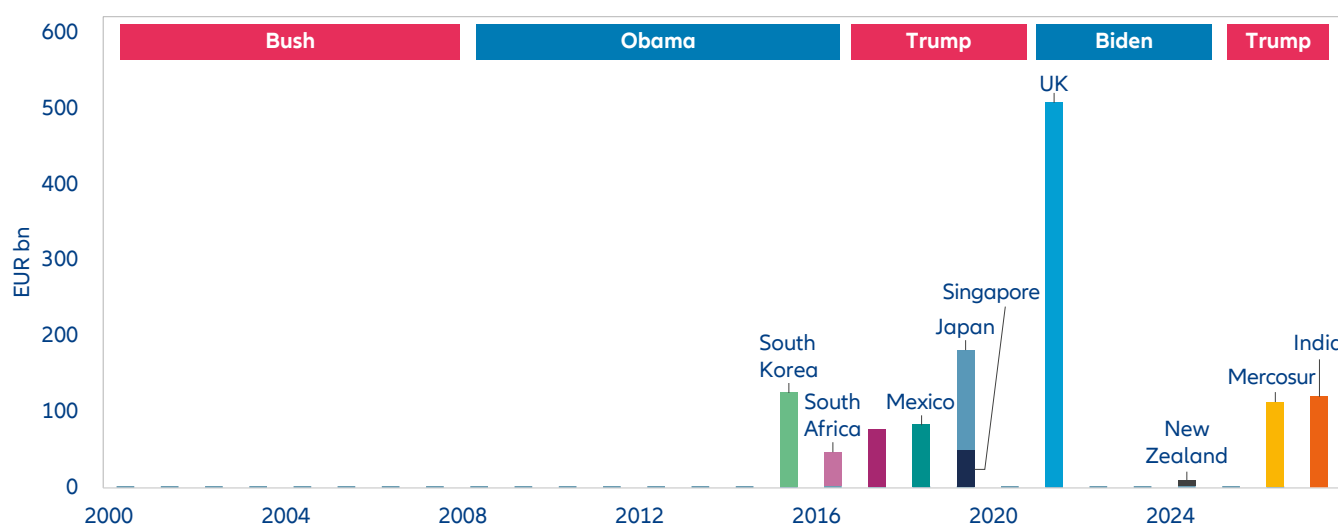
India is also navigating sensitive geopolitical relationships, such as with China, in a pragmatic and calibrated manner. Recent joint ventures – for example, SAIC Motor’s 51% stake transfer of its Indian EV arm (MG Motor India) to Indian partners – reflect a model where foreign participation continues, but under clear frameworks that ensure local control.

Together, these developments illustrate India’s ascent as a strategically neutral economic hub – a large, democratic, rules-based market not tied to any single superpower. In an era defined by realignment and geopolitical hedging, India is increasingly seen as a reliable and balanced counterparty, enhancing its appeal to both trade partners and global investors alike.

## Geoeconomic realignment as traditional trade rules are upended

However, it is a long way from agreeing a trade deal to ratification. Formal signature is currently only expected at the end of this year, and even provisional application usually requires consent by the European Parliament – where an unusual alliance of Greens, far-left and far-right parties just delayed ratification of the Mercosur agreement for another one to two years.

Exhibit 1: EU trade deals (total 2024 EU trade covered, EUR billion), 2000-2027



Note: For the chart, we assume that the Mercosur FTA is provisionally applied from 2026 and the India FTA from 2027. Sources: Eurostat

<sup>2</sup> The South American trade bloc made consisting of Argentina, Bolivia, Brazil, Paraguay and Uruguay.

## EU-INDIA TRADE DEAL: A SIGN OF SHIFTING GLOBAL TRADE WINDS?

Still, the deal is further evidence that the EU has turned to “Realpolitik” and intensified bilateral trade negotiations when the multi-lateral trade framework governed by the World Trade Organisation is weakened, as it has been during US President Donald Trump’s terms in office, both 2017-2020 and now. After a long hiatus after the 1990s agreements with Turkey, where the EU has promoted global trade integration and focused on its own expansion, it has signed a series of trade deals which cover a third of its total external trade – if we include the UK trade deal in 2021, which contained the damage of Brexit somewhat (see Exhibit 1 on the previous page). The deal frenzy paused when the US reverted to conventional trade policy under President Joe Biden.

It is also evident that more economies are open to free trade deals in the current environment, even economies

traditionally considered more “closed” such as India. That could spur economic development and effectively form a more resilient web of free trade agreements around the US and China, the “great powers” which Canadian Prime Minister Mark Carney indirectly referred to in his recent Davos speech. While the US and China may change their approach to trade under future governments, the re-orientation of global trade around them is likely to be permanent, highlighting the damage of disruptive policies.

The immediate market impact of the EU-India deal may be limited, given the relatively small trade exposures. But just as economies are diversifying their trade links to reduce concentration risks, we see signs of investors taking the same approach with their portfolios. In our view, emerging market equity and debt stands to benefit gradually, as do European assets, over time.

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**Past performance does not predict future returns. If the currency in which the past performance is displayed differs from the currency of the country in which the investor resides, then the investor should be aware that due to the exchange rate fluctuations the performance shown may be higher or lower if converted into the investor’s local currency.**

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