

March 30, 2026

Same Goal, Different Rules: India's Deals with the EU and US

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India's trade deals with the EU and the US share the same goal but differ sharply in structure and implications. While Europe offers rules-based predictability, the US is transactional & conditional. For better outcomes, India must invest in deep manufacturing & reduce the cost of making products.

Introduction

India's trade policy is entering a new phase, shaped by trade deals with its two most important markets, the European Union (EU) and the United States. These deals reflect both opportunity and risk in a fragmented global economy marked by tariff shocks, geopolitical tensions, and shifting supply chains. While they aim to secure market access and boost exports, they are built on very different foundations, showing how trade policy is now closely linked to strategic and political factors, not just economics.

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India now has more than 20 comprehensive trade agreements and six of narrower scope. These include deals signed in the last five years alone with Mauritius (2021), the United Arab Emirates (UAE) and Australia (2022), the European Free Trade Association (EFTA) (effective October 2025), the United Kingdom (July 2025), and Oman and New Zealand (December 2025), along with frameworks like the Indo-Pacific Economic Framework.

Within this network, the US and the EU stand out as India's key trade partners, together accounting for about 37% of exports. In 2025, India exported goods of value \$92.3 billion to the US and \$73.6 billion to the EU, while imports were \$50.1 billion and \$65.7 billion, resulting in trade surpluses of \$42.2 billion and \$7.9 billion, respectively.

The high share of both the economies in India's exports show why securing deeper access to these two markets is central to India's FTA strategy, even though the two deals differ significantly in structure, expectations, and strategic implications.

Let us examine the core features of the two FTAs.

India-EU Agreement

This is a conventional free trade deal. After nearly two decades of negotiations, it was concluded on 27 January 2026, reflecting a pragmatic shift driven by geopolitics rather than a full resolution of differences. Tariff shocks under the Donald Trump administration and concerns over dependence on China pushed both sides towards a workable compromise.

The scale of the deal is significant—India and the EU together account for about 23% of global gross domestic product (GDP) and nearly a quarter of the world's population.

The commercial logic is straightforward, as the two economies are largely complementary. India exports labour-intensive goods such as garments, footwear, and auto components, along with pharmaceuticals, smartphones, diamonds and fuels, while Europe exports high-value products like machinery, aircraft, medical devices, and industrial inputs. This complementarity supports trade expansion with limited disruption.

|| Even so, the agreement marks a turning point. After years of slow progress, India and the EU have chosen to move forward in a fragmented global trading system.

The agreement spans 24 chapters. The EU will eliminate tariffs on 98% of Indian goods exports, with key gains in garments and footwear where duties of 8% to 15% will be removed, improving India's competitiveness against countries like Vietnam and Bangladesh. Other sectors likely to benefit include marine products, gems and jewelry, chemicals, and machinery.

India, in turn, will reduce tariffs on about 97% of EU exports, including sharp cuts on sensitive items such as wine, spirits, beer, and automobiles, along with zero tariffs on many industrial goods. These concessions indicate a willingness to open domestic markets in exchange for access and investment.

In services, India has secured the EU's commitments across information technology (IT), professional services, finance, education, and tourism, along with provisions for temporary movement of professionals. However, outcomes will depend on implementation, as Indian firms continue to face barriers such as local establishment requirements, high salary thresholds, and complex compliance rules.

Progress on issues like data recognition, visa access, and mutual recognition of qualifications will be critical. India has extended its most ambitious commitments in financial services, signalling deeper integration with the EU's capital markets.

A risk to the FTA comes from the EU's Carbon Border Adjustment Mechanism, which went into effect on 1 January 2026. Post the FTA implementation, while tariffs will fall, the EU's carbon charges could raise costs for Indian exports, especially in sectors like steel and aluminum.

The agreement offers cooperation mechanisms and possible financial support but does not directly offset these costs. Compliance requirements, including certification and detailed reporting, are also likely to increase costs and delay shipments, particularly for smaller firms. Additional challenges remain, including strict EU regulatory standards for agricultural exports.

Even so, the agreement marks a turning point. After years of slow progress, India and the EU have chosen to move forward in a fragmented global trading system. The deal offers clear opportunities, especially in goods and potentially in services. But its long-term success will depend on how both sides manage unresolved tensions, above all, the carbon tax, which could act as a hidden barrier even as tariffs fall.

Background to the US Deal

The India-US trade deal emerged from a sharp shift in US policy on 2 April 2025, when President Trump imposed sweeping "Liberation Day" tariffs on most trading partners. Washington introduced steep "reciprocal tariffs" ranging from 10% to 50%, arguing that foreign trade barriers were responsible for the US trade deficit. These tariffs were not uniform; they varied by country and were designed to push governments into trade negotiations with the US.

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The strategy worked—at least initially. Because the US is one of the world's largest export markets, countries moved quickly to seek relief. Washington offered lower reciprocal tariffs in exchange for concessions on market access, investment rules, procurement, and regulation.

A series of agreements followed. The US reduced reciprocal tariffs to about 15% for the EU, Japan, and South Korea; 20% for Vietnam and Taiwan; and 19% for Malaysia, Indonesia, and Thailand. These deals did not remove tariffs but made them more manageable, giving countries a clear reason to sign the trade deal. India also signed a similar deal.

India-US Bilateral Trade Agreement

India and the US have taken the first step towards a long-awaited trade deal. The one-page joint statement issued on 6 February 2026 offers a preview of the issues that will later expand into a comprehensive bilateral trade agreement (BTA), likely to run into hundreds of pages.

Public discussion has focused mainly on tariff cuts, but the statement goes far beyond duties. It signals commitments on economic security, digital trade, regulatory standards, and strategic alignment. Here are the key details.

The US has reduced its reciprocal tariff—from 50% to 18%—on Indian goods that account for about 55% of India's exports to the US. However, standard most-favoured nation (MFN) tariffs still apply on top of this. For example, the US MFN tariff on Indian garments is 12%. Before April 2025, garments were subject to a 12% duty. This was later raised to 62% (50% + 12%) and has now been reduced to 30% (18% + 12%).

Reciprocal tariffs are country-specific penalties devised by Trump, while MFN tariffs are the standard duties applied equally to all trading partners under World Trade Organisation (WTO) rules.

Though still high, the US tariff cut provides relief, especially as competitors such as China and Vietnam continue to face steeper penalties. Labour-intensive sectors, including textiles, footwear, chemicals, handicrafts, and marine products, are likely to benefit. Tariffs on the remaining exports are unchanged. Smartphones, medicines, petroleum products, and a few agricultural items remain exempt, while steel and aluminum still face 50% duties.

In return, India is reducing or removing MFN duties on US industrial goods and several agricultural products. Product-wise tariff cut details are awaited.

Since the US accounts for about 20% of India's exports, and shipments fell by roughly 22% after the tariff shock, the tariff relief is welcome. However, it represents a partial rollback of punitive duties rather than a return to normal trade conditions.

The deal also pushes India to ease what Washington considers regulatory barriers. This includes reviewing rules on medical devices, relaxing import licensing for information and communication technology (ICT) products and aligning with US or global standards in some sectors. Agriculture and food regulations are also under scrutiny.

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These changes carry risks. Removing price caps on medical devices could increase healthcare costs. Allowing refurbished imports may bring in lower-quality equipment. Easing telecom testing rules could weaken cybersecurity. In agriculture, US demands challenge India's food safety standards, including dairy rules shaped by public health and cultural factors. Notably, the US is not offering similar regulatory concessions to India.

Digital trade is another key pressure point. The US call to remove "discriminatory or burdensome practices" and create clear digital trade rules is aimed at ensuring free access for American tech firms to India's vast market. India already relies heavily on US technology platforms-from cloud services and operating systems to digital marketplaces. Accepting these proposals could limit the government's ability to regulate data flows and large tech companies.

The US may also press India to support a permanent WTO moratorium on customs duties on electronic transmissions, which India has long opposed. Making the moratorium permanent would remove future flexibility to tax such transactions.

Perhaps the most significant shift is strategic. The joint statement's reference to both countries strengthening "economic security alignment" suggests cooperation on supply chains, coordinated action against "non-market policies" of third countries, and coordination on investment screening and export controls. In practice, this could align India's foreign, trade, and technology policies with US priorities.

Such alignment could adversely affect India's relations with third countries. If Washington restricts China on economic security grounds, India may face pressure to follow suit. For India, which has long pursued strategic autonomy and diversified partnerships, embedding its policy within another nation's economic security framework carries grave risks.

The framework also refers to India's intention to purchase \$500 billion of US goods over five years, including energy and aircraft. Achieving this would require imports to more than double, potentially widening the trade deficit. Such purchases depend on private firms, making the target more aspirational than binding.

Overall, the deal offers short-term export relief but raises longer-term concerns. While tariffs may fall, commitments on regulation, digital policy, and strategic alignment could limit India's policy space.

Within two weeks of both countries signing the joint statement, a US supreme court judgement shook the legal foundation of all the Trump administration's trade deals.

Collapse of US Tariff Strategy

The US trade deals were built around reciprocal tariffs, but that incentive disappeared on 20 February 2026 when the US supreme court ruled that the legal basis for these tariffs was invalid. This effectively dismantled the strategy built around reciprocal tariffs.

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Within hours, the Trump administration responded by invoking Section 122 of the Trade Act of 1974 to impose a uniform 10% tariff on imports from all trading partners. The measure took effect on 24 February 2026 and will remain in place for five months.

But this created an immediate problem. Countries that had offered deep concessions to the US in exchange for reciprocal tariffs of 15% to 20% suddenly faced the same 10% tariff as countries that had made no concessions. The advantage of earlier agreements disappeared overnight. Governments now had little reason to continue honoring trade deals.

The risk was clear to the US-if countries began walking away, the entire structure of US trade policy would unravel. In a 24 February 2026 address, President Trump warned partners against reopening deals and signalled that attempts to renegotiate the deals could invite higher tariffs and tougher measures. But the US knew that warnings alone were unlikely to hold the system together.

New Investigations

The next step came on 11 and 12 March 2026, when the Office of the US Trade Representative launched two new investigations under Section 301 of the Trade Act of 1974, marking a shift from broad tariffs to targeted probes. The first focuses on excess industrial capacity in 16 economies, including China, the EU, Japan, South Korea, and India, examining whether subsidies and state support have created overcapacity in sectors such as steel, aluminum, automobiles, batteries, electronics, chemicals, semiconductors, and solar modules.

The second targets forced labour in global supply chains across about 60 economies, including both allies like the EU and India and competitors like China, covering not only direct use of forced labour but also inputs used in exports to the US.

These investigations signal a new phase in US trade policy but also send a troubling message-even countries that have signed agreements are not protected from further action. This undermines the basic promise of a trade deal, which is to provide stability and predictability.

|| Governments that made large concessions to the US must now justify staying in agreements that no longer offer clear benefits and have exposed them to new tariffs and investigations.

The consequences became clear on 15 March 2026 when Malaysia walked away from its trade agreement with the US. The deal had reduced tariffs on Malaysian exports to 19% in exchange for market access and policy concessions. Once tariffs were reset to a uniform 10%, those concessions no longer provided a clear benefit. Malaysia's trade minister declared the agreement "null and void".

Malaysia may be the first, but it is unlikely to be the last. Other countries, including India, now face the same dilemma. The US supreme court ruling removed the main advantage of these agreements, while new investigations show that trade pressure will continue regardless of existing commitments.

Governments that made large concessions to the US must now justify staying in agreements that no longer offer clear benefits and have exposed them to new tariffs and investigations.

Similarity and Differences

India's trade deals with the EU and the US pursue the same goal-securing market access in a more fragmented and protectionist global economy. Both were shaped by external pressures, including US tariff shocks, shifting supply chains, and rising geopolitical risks. Both also go beyond tariffs to cover services and regulatory issues.

But the similarities end there. The EU agreement follows a conventional, rules-based model, with tariff cuts applied on an MFN basis and clear, negotiated commitments across sectors. The US framework is different. It relies on tariff pressure, offering limited relief in exchange for broader concessions, making it less balanced and more conditional-and not fully aligned with WTO rules.

The long-term implications diverge even more. The EU deal offers predictability, legal clarity, and mutual gains, supported by a stable institutional structure. The US arrangement is narrower on tariffs but wider in scope, extending into digital trade, standards, energy purchases, and strategic alignment, often with uneven obligations. It is also more fluid, where commitments do not necessarily guarantee stability, as recent court rulings and new investigations have shown.

Taken together, the two deals reflect India's balancing act—working with a rules-based partner in Europe while managing a more transactional under duress relationship with the US.

Concluding Remarks

The combined impact of the US-Israel war with Iran and the ongoing Russia-Ukraine conflict is turning trade deals into strategic tools rather than purely commercial arrangements. Taken together, the two deals highlight a deeper shift in the global trading system—from predictable, rules-based arrangements to more uncertain and power-driven outcomes.

For India, this means that while FTAs remain important, they are no longer sufficient on their own. Long-term success will depend on strengthening domestic capabilities, which means building competitive manufacturing, improving logistics and regulatory systems, and moving up the value chain in services. In a world where agreements offer limited certainty, resilience at home will matter more for assured access abroad.

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