



Delhi Policy Group

Advancing India's Rise as a Leading Power



POLICY BRIEF

Making the India-EU FTA Deliver and Renewing Multilateralism

Author

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Cover Images:

1. Indian Prime Minister, Narendra Modi welcomed the President of the European Council, António Costa, and the President of the European Commission, Ursula von der Leyen for the 16th EU-India Summit, at Hyderabad House, in New Delhi, on January 27, 2026. Source: [European Commission](#)
2. Indian President Droupadi Murmu and Indian Prime Minister, Narendra Modi welcomed the President of the European Council, António Costa, and the President of the European Commission, Ursula von der Leyen for the 16th EU-India Summit, in New Delhi, on January 27, 2026. Source: [European Commission](#)

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Making the India-EU FTA Deliver and Renewing Multilateralism¹

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Introduction

Trade policy, whether pursued through bilateral agreements or within the multilateral trading system, is increasingly being shaped by strategic competition for economic and technological primacy. Coercive leveraging of access to its large market by one trade major and supply dominance by the other trade major are now recurring features of the global trading landscape. Pushing to secure policy alignment from trading partners, including on areas like digital taxes, is also becoming very prevalent.

Against this backdrop, the conclusion of the India-EU Free Trade Agreement (FTA) is a significant development. At a time when the rules-based trading system is under growing strain, the agreement demonstrates that ambitious trade negotiations between major economies can still be successfully concluded. More importantly, if implemented effectively, it can deepen mutual confidence and understanding between India and the European Union, creating a stronger basis for cooperation on selected issues concerning the future of the multilateral trading system.

In managing trade relations with the United States, many countries have found themselves negotiating bilateral frameworks and understandings that effectively supersede WTO disciplines. Asymmetric commitments are justified in terms of reciprocity or balance. Recent judgments of the US Supreme Court and other courts may help clarify the domestic legal basis of certain trade measures. But they are unlikely to bring an end to tariff activism or broader trade-policy adventurism. Expansive use of Section 301 provisions appears now likely to stay and in all likelihood will continue beyond the current administration.

At the same time, China's continued overcapacity and concentration in several manufacturing sectors remain a systemic concern. For many economies, this is contributing to widening trade deficits and increasing pressure on domestic industry and employment. Export restrictions on critical minerals and magnets

¹ This is an expanded version of the remarks made by the author at a recent conference on 'EU and India amidst global geopolitics' jointly sponsored by Bruegel and India International Centre in Brussels.

add another layer of vulnerability. In some respects, we are seeing the replication and expansion of earlier Western approaches to controlling so-called dual-use items, but now applied to a much wider range of products and for broader objectives.

One positive outcome from these developments is that countries have become far more conscious of the need to diversify their supply sources and build what each country can regard as resilient and trusted supply chains from its perspective. This shift appears likely to endure, as does the broader quest for economic security.

Interestingly, despite the tariff turbulence, trade figures for 2025 did not suggest any dramatic contraction in global trade. What we are witnessing instead is diversification, rerouting of trade flows, and sharper sectoral variations. WTO indicators suggest that MFN trade still accounts for roughly 72 per cent of world trade, although this is down from over 80 per cent in earlier years. The system is under stress, but it continues to function. And we also see that the world's largest importer has become larger, and so has the world's largest exporter. Dependence, therefore, is not necessarily diminishing.

Against this uncertain backdrop, the conclusion of the India-EU Free Trade Agreement is something to celebrate. The agreement became possible because both sides demonstrated deeper appreciation of each other's sensitivities as well as expectations. In this brief, we look at this FTA in the larger context of the uncertainty surrounding the global trade policy scenario. The importance of effectively implementing it is emphasised. That in turn could generate the mutual understanding and trust for also jointly collaborating in addressing the no less urgent and important issues on the multilateral front.

Making the India-EU FTA deliver

This will be the deepest FTA India has concluded with any major economy. Together with India's agreements with the United Kingdom and EFTA, it will extend preferential access across most of Europe. Once implemented, India's FTA network will cover roughly half of its exports and around 45 per cent of its imports. From all indications, the agreement is also likely to be formally signed and ratified by both sides by the year end or early next year.

The agreement has generally been well received in India. Nevertheless, it is worth noting that the European Union will receive the deepest market access that India has granted under any FTA, with concessions covering 92.7 per cent of tariff lines and 97.5 per cent of EU exports. For some products, EU exporters may enjoy the

most favourable - and in certain cases effectively exclusive - preferential access to the Indian market, although the precise product coverage will need to await publication of the tariff schedules.

India has also secured substantial concessions in the EU market. However, these largely provide a level playing field vis-à-vis other competitive partners such as Vietnam and Indonesia, rather than conferring a unique advantage.

There are nevertheless some sectoral concerns, particularly because the EU remains a highly regulated market and is becoming even more so. In this brief we highlight three areas.

First, their carbon border adjustment measures, or CBAM in short. Compliance will not be straightforward for Indian exporters. It will require alignment between India's evolving carbon measurement and credit systems and EU requirements, as well as credible domestic verification mechanisms. While technical cooperation provisions exist, translating them into practical outcomes will require sustained engagement from both sides that would involve trust building as well. There also needs to be recognition that there can be multiple pathways towards decarbonisation and that due consideration need to be given to alternative approaches.

Steel illustrates the broader challenge. CBAM is now accompanied by additional regulatory layers. New and reduced tariff-rate quotas are imminent, compliance with the Ecodesign for Sustainable Products Regulation (ESPR) will be required soon, and restrictions on exports of ferrous scrap are being considered. India is a significant importer of EU scrap, which many viewed as a means of supporting greener production through electric arc furnace technologies and potentially mitigating CBAM-related costs. So, not just CBAM but these additional measures also need workable implementation pathways for Indian exporters, or it will be simply become a case of tariffs being replaced by non-tariff barriers.

More broadly, these developments demonstrate how regulation can significantly shape trade outcomes. Similar concerns extend to sectors such as textiles through ESPR requirements that are to come into force next year, and certain agricultural products subject to deforestation regulations.

Second, exports of IT and IT-enabled services remain a major area of India's interest. Further progress, however, will depend significantly on movement towards data-secure or adequacy-type recognition. Bridging approaches on privacy, data protection, and cybersecurity will, therefore, be important on which

quick actions are necessary. It is hoped that institutions like the India-EU Trade and Technology Council can help move forward processes in this direction.

Third, effective implementation at the level of EU member states of arrangements addressing double social security contributions for short-term professionals will be necessary. Although such arrangements apparently exist between India and some EU member states, they will need to be negotiated with the remaining members.

It is also hoped that the ongoing negotiations on geographical indications and investment protection can be concluded soon. These elements are important for making the overall framework comprehensive, but they too will require a careful balancing of sensitivities and expectations.

Ultimately, an FTA is only a market-opening instrument. Its success, ten years from now, will be measured not merely by tariff reductions or by how effectively non-tariff barriers have been addressed, but by whether India and the European Union have achieved significantly deeper engagement in sectors in which both sides already trade such as automobiles, pharmaceuticals and medical devices, chemicals, steel and other metals, electronics manufacturing, critical minerals, and magnets. These are areas where complementary strengths exist and where trusted supply chains can be built. It is worth noting that currently over ninety percent of India-EU bilateral trade is in industrial products in both directions and over 80% on manufactured goods. And that will likely remain the core of future bilateral goods trade.

The India-EU Joint Statement rightly emphasises scaling up bilateral investment and exploring initiatives such as Blue Valleys to accelerate private-sector engagement in strengthening selected value chains. It is important to ensure that the FTA implementation produces commercially meaningful outcomes for businesses on both sides.

Can the EU and India work together on WTO reform?

Successful implementation of the India-EU FTA can also contribute to greater mutual trust and a better appreciation of each other's policy priorities. That in turn may encourage evolution of a greater degree of convergence between India and the European Union on selected issues in multilateral trade discussions. Historically, the positions of the two economies have not always aligned. More recently, there are differences on issues such as pursuing plurilateral pathways or

incorporating the agreement on Investment Facilitation for Development (IFAD) into the WTO framework.

These differences will not disappear overnight. However, the greater understanding of each other's development priorities and regulatory systems achieved during the FTA negotiation and implementation process can encourage a more problem-solving approach, including on difficult questions.

Are there common interests?

While the EU and more recently India are seeking to further widen their respective FTA networks, it would be in their common interest to ensure that rule based multilateralism remains strong at the same time. The EU is no doubt the world's second largest importer and exporter and therefore has the economic muscle to act on its own. Equally, however, its relative exposure to international trade is high compared to either the US or China. It is not resource intensive and relies heavily on global trade for procurement of energy, raw materials, and even intermediate industrial inputs like critical minerals or semiconductors.

Both India and the European Union are seeking to expand manufacturing significantly and also strengthen their respective economic security interests. India's manufacturing share of GDP currently remains at only around 12-13 per cent and needs to rise substantially. Merchandise exports currently cover only about 57 per cent of imports, leaving a significant deficit.

Issues they can work on

In this context, there is considerable scope for India and the EU to find common ground on industrial policy, even as looking at it from a purely disciplining angle without a supportive developmental dimension would not be appropriate. Addressing the unique China issue here should not result in reduced industrial policy scope for other developing countries.

A related issue concerns the treatment of global overcapacity and excessive concentration in certain economies, even if definitional challenges remain. Existing WTO trade-remedy instruments have shown limitations in dealing with these concerns. There is a case for carefully designed new tools and flexibilities that would allow members, including developing countries, to respond effectively without constant fear of retaliation. Ironically, some of the world's largest subsidisers have turned strongest critics of industrial incentives adopted

elsewhere and have launched trade disputes, including against India's PLI schemes.

Assured access to critical and strategic goods needs to be another key area of focus. If countries feel the need to maintain a certain level of domestic capacity in sectors they regard as vital, even where they are not the most cost-competitive producers, then the trading system will need to show accommodation to such economic security considerations. Such calibrated flexibility may also help discourage the emergence of excessive and distorting overcapacities in the first place.

Another important issue arising in reform discussions is the growing call to revisit the role of the MFN principle. Proposals to link MFN more explicitly to reciprocity, levels of openness, or the relationship between bound and applied tariffs raise fundamental systemic questions. For developing countries like India there is also considerable discomfort in getting caught between supply dominance and overcapacity on one side, and discriminatory or supposedly reciprocal approaches on the other. The European Union faces a similar dilemma. It is a classic case of getting caught between a rock and a hard place. Is there a middle path that preserves MFN principles and still provides room for strengthening economic security?

There are also arguments that countries such as India should no longer seek special and differential treatment in the WTO. Such calls are premature. It would be difficult to justify withdrawing these flexibilities from India at its current stage of development when many other developing countries, including some much larger economies, enjoyed them at comparable stages or even at significantly higher levels of per capita income. This issue deserves careful reflection and should not be determined simply on the basis of G-20 membership or India's economic size.

Each of the foregoing issues need a lot of technical work to develop the necessary calibrations through which economic security, competitiveness, innovation and the required development space for developing countries can all be accommodated, while preserving the WTO's foundational principles. Both India and the EU have the technical capacity to contribute meaningfully to such an exercise, particularly if undertaken with other like minded WTO members facing similar challenges.

Entry of Plurilaterally negotiated agreements in the WTO?

This will be a far more difficult area to tackle. Issues such as whether the proposed agreement is trade related, will it upset the balance of rights and obligations in the

WTO, including those of non-members to such a plurilateral, what is the scale of support the agreement enjoys, and whether it enjoys consensus among all WTO members should all be key considerations. No less important are also addressing issues already on the WTO agenda, such as finding a permanent solution for allowing public stockholding for food security purposes. Facilitating plurilateral pathways should not result in diminishing appetite for multilateral agreements that should be the priority and which by their nature require stronger efforts towards forging consensus.

Plurilateral Agreement on Investment Facilitation for Development (IFAD)

Proponents of the IFAD consider that the case for inclusion of this agreement into the WTO is fairly straightforward. It will bring in transparency and procedural fairness that can potentially facilitate investment flows. It avoids from its coverage the more difficult pre-establishment related commitments. It also keeps out the more controversial elements of investment protection and the investor state dispute settlement. That 131 WTO members have decided to join it by itself indicates overwhelming support. The EU has also shown considerable interest in IFAD becoming part of the WTO acquis.

India has remained outside these discussions even as there have been considerable level of internal discussion within the government on how should India be revising its own model bilateral investment promotion protection agreements. A revamp was promised by the Finance Minister in the 2025-26 budget statement but there has been no published outcome. If the India-EU Investment Protection agreement negotiations make progress, this could give further indication regarding evolving positions.

However, as already mentioned earlier, there are issues of balance and need for guardrails about such incorporation of plurilaterally negotiated agreements that need wider discussion and understanding. There are also several substantive questions concerning IFAD itself. It is not the purpose of this brief to examine these exhaustively. Nevertheless, a few issues merit attention because they go to the heart of the debate on incorporation into the WTO framework.

- First, the absence of any definition of investment in the agreement, despite the agreement stating at one point it is aimed at facilitating FDI. Would it for example be limited to FDI and enterprise based investments, or would it also cover any asset based investments including portfolio flows, contracts, debt, financial flows etc., which can also be argued to be facilitating FDI. If the latter,

more questions arise including about whether the WTO Secretariat would have the wherewithal to monitor such developments and instruments.

- Second, the lack of effective MFN. While article 5 extends MFN treatment to both members and non-members, non-application of dispute settlement to non-members renders it ineffective. It could be asked why free-riding non-parties should be extended such treatment? The ITA agreements extended MFN treatment of zero duties for all WTO members, which demonstrated that the ITA membership believed that the agreement was good for trade expansion and development. Similarly, if a non member of IFAD considered that it was not getting MFN treatment by a member, there should at least be a mechanism such as in the Committee under IFAD to discuss the matter even if formal dispute settlement procedures will not apply.
- Third, as per the IFAD agreement, two thirds of its membership can amend the agreement. There has to be some safeguard that this is not abused in a manner that the amendment changes the very character of the agreement after its incorporation into the WTO, which takes place by consensus decision of the entire WTO membership.

These are a sample of issues that will need discussion between India and the EU. Such open-minded discussion will also help in the development of adequate guardrails for incorporation of a plurilateral agreement into the WTO that could make things clearer and help enlarge the consensus.

Conclusion

To conclude, the world is entering a period of growing fragmentation risks, tariff uncertainty, and strategic contestation. In such an environment, deeper India-EU economic engagement can strengthen bilateral trade and investment flows. Effectively addressing the regulatory issues currently faced and devising solutions would be crucial here. Such cooperation in turn can help build trust, and contribute to working together towards a more balanced, reform-oriented, and ultimately resilient multilateral trading system, without abandoning its foundational principles.



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