

# Prospects

No. 26/037 – 20 February 2026

## INDIA – After China in 2001, is India embarking on a new trade odyssey?

Like 2001 was for China (the year it joined the WTO), will 2026 turn out to have been a pivotal year in India's trading history? The country, now the world's fifth largest economy in GDP terms, remains a minor player in international trade (17th in terms of exports, accounting for 1.8% of total world exports). Due to a rather protectionist stance focused on its domestic market, particularly in agriculture, India had so far signed few free trade agreements and was among the countries with the highest import tariffs.

Recently, in the space of just two weeks, the country made significant progress with its top two trading partners, concluding negotiations with the European Union that began nearly 20 years ago (in 2007) through a free trade treaty and reaching a deal with the United States.

### Two major deals in two weeks

#### *EU deal brings to a close 20 years of tough negotiations*

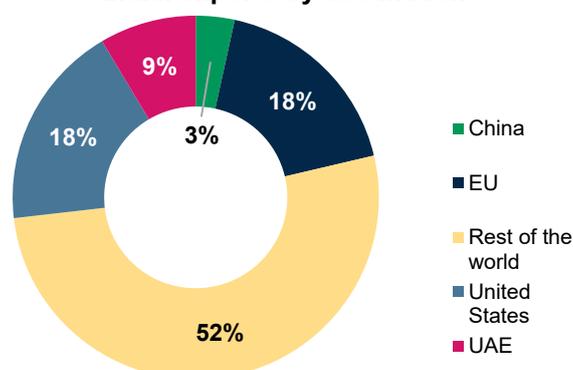
After numerous rounds of negotiations, India and the European Union announced a trade deal at their joint summit on 27 January. This agreement brings together two economic heavyweights, together accounting for 25% of global GDP. The goal is to double the flow of goods and services (around \$200 billion today) by 2032.

For India, the treaty should facilitate access to the European single market in a number of strategic, mainly labour-intensive sectors, starting with textiles, leather and footwear, by lowering import tariffs to 10% on around \$33 billion-worth of exports. This also includes jewellery and precious stones, a sector in which India has extensive expertise, and seafood (notably shellfish).

The main wins for Europe are in the automotive sector, with India agreeing to gradually lower import tariffs on cars and spare parts and increase its vehicle import quotas. However, this is likely to happen very gradually, with a floor rate being reached for some categories of goods after ten years. Other key sectors for the EU such as machine tools, chemicals and pharmaceuticals will also see import tariffs substantially reduced or even eliminated.

While both sides welcomed the deal, a number of points remain unresolved. While certain specific goods (wine and olive oil for the EU; tea, coffee and spices for India) will be covered by exemptions, most agricultural products (cereals) and dairy products remain outside the scope of the deal so as not to put Indian farmers in competition with European producers. This issue, which has long been a point of contention between the two parties, was in the end left aside so as to be able to conclude the negotiations. In time, the deal also provides for the protection of geographical indications, a subject that remains very sensitive.

India: exports by destination



Sources: IMF, Crédit Agricole

### **United States: still plenty of grey areas**

With the US, on the other hand, not everything is clear yet. Donald Trump began by unilaterally announcing that the two countries had struck a deal, including in particular a commitment by India to halt purchases of Russian oil – something the Indian authorities had not confirmed.

It was for this reason that India faced a 25% hike in import tariffs in August, on top of the 25% “reciprocal tariffs” announced on 2 April, dubbed “Liberation Day”. This is an untenable situation – despite the fact that some products, including pharmaceuticals, which account for 15% of exports to the US, are exempt – particularly in the face of competition from other countries in the region that have secured more favourable tariff terms.

India had also reportedly committed to substantially lower tariffs on all US imports and significantly increase its purchases of US products, reaching a cumulative total of \$500 billion over five years, which would imply doubling its purchases (Indian imports from the US in 2025 totalled \$45 billion). The sectors in question are aviation (including spare parts), metals and – no surprise – energy. India has reportedly agreed to scrap some import licensing procedures – a longstanding irritant between the two countries – but, as with the European Union, has succeeded in protecting its agricultural market. In return, “reciprocal” tariffs on imports from India would be cut to just 18%.

While there was no particular response to the deal with the European Union, Trump’s announcement sparked significant relief on the markets. The rupee, which is currently depreciating – the exchange rate exceeded the historic threshold of 90 rupees to the dollar in December and has since stayed above it – has rallied against the dollar, as have major Indian stocks.

However, many uncertainties remain. Ever since the start of the war in Ukraine, India has carefully cultivated its status as a “multi-aligned” country, refusing to pick sides between Russia and the US. Moreover, the Indian authorities have not officially confirmed the details announced by the US president. Cutting or even halting purchases of Russia oil would be a huge concession, both politically and economically. In November, Russian oil still accounted for 25% of Indian imports, far ahead of other suppliers (Iraq, Saudi Arabia, the United Arab Emirates and the US).

Above all, India’s energy partnership with Russia had enabled Indian refiners to become oil exporters, thus limiting the country’s structural

dependence on energy. Breaking this arrangement would thus deprive refiners of a substantial income stream and force India to find new suppliers. Of course, the US would like to increase its market share, and Trump has also sold Narendra Modi the opportunity to buy Venezuelan oil, a heavy oil that also needs refining, which could replace the lost Russian oil. In the short term, however, such a replacement solution looks very unlikely, so giving up Russian oil would unavoidably result in a deterioration in India’s trade balance, already structurally in deficit.

The opposition in India is already accusing the majority of selling out the country to US interests and condemning what it sees as a very unbalanced deal. In any event, the deal is neither final nor really formalised – for the time being, according to both parties, it remains a provisional deal – and will require further negotiations.

### **Will development mean an end to protectionism?**

Narendra Modi has pledged to make India a “developed economy” (as defined by the World Bank, i.e. an economy with per capita GDP of over \$15,000), a highly ambitious target: it’s currently classed as a lower-middle-income country, with per capita GDP of \$2,800.

These trade deals are therefore a way to gradually increase India’s share of global manufacturing exports, notably by negotiating better tariff terms in sectors that are strategic for the country (textiles, electronics and pharmaceuticals) and, above all, are likely to attract new foreign investment. For example, one of the country’s targets is to triple textile exports from \$37.5 billion to \$100 billion by 2050.

Net inward foreign direct investment reached \$47 billion in 2025 (far behind China and its \$108 billion) but continues to be dominated by the services sector (notably finance and IT services, including in particular data centres). Inflows had dried up over the past two years amid trade uncertainty, with many foreign companies also opting to repatriate some or all of their profits rather than reinvest them locally. Deals with the US and especially the European Union should nevertheless reassure some investors and, above all, help them look to India’s longer-term future.

With a current account deficit hovering around 1% of GDP, India has an annual financing requirement of between \$50 billion and \$75 billion. A higher capital account surplus of between \$75 billion and \$100 billion would

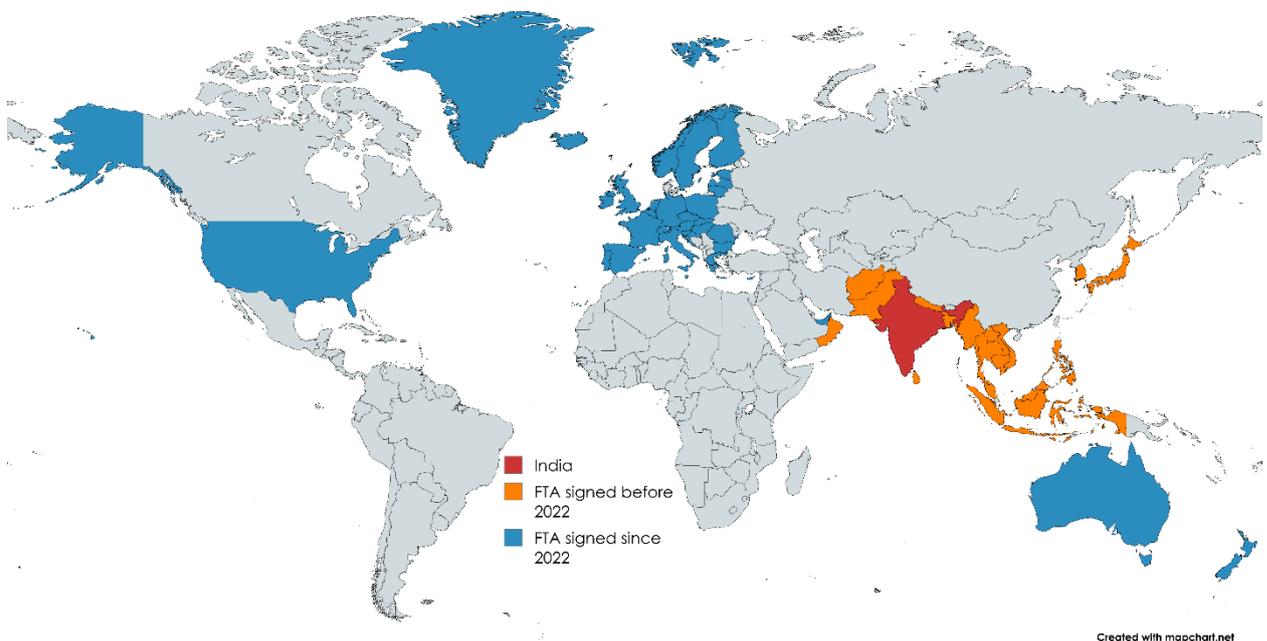
enable India to cover its financing needs while continuing to consolidate its foreign exchange reserves, which currently stand at \$700 billion. Another issue is supporting the rupee, which is on a structural downtrend as a result of this current account deficit.

While these deals should give investors some more visibility, they will not remove all the obstacles to India's industrialisation, chief among them the many regulatory and administrative barriers in place. The country's federal structure and the lack of a majority in Parliament<sup>1</sup> stand in

the way of more ambitious reforms, notably to free up the labour market.

Despite promises to open it up, India remains among the most procedurally hidebound countries when it comes to trade and is among those states that file the most complaints with the WTO. The risk is therefore that the deals – particularly the one with the European Union – are only implemented extremely gradually, and even more slowly than already provided for in the text of the agreements.

#### India: free trade agreements



**Our opinion** – While it obviously does not solve everything, the deal with the European Union enables India to wrap up a major trade negotiation and provide visibility to investors who are still looking for alternatives and sources of diversification. The announcement of the beginnings of a deal with the US after several months of tensions is another source of satisfaction, even though, on the face of it, it involves major compromises on the Indian side. However, this deal raises new questions: who will India now turn to for its energy? And what will be the implications for its trade balance and current account balance? Above all, will opening up to competition in some sectors and in return gaining wider access to the vast markets of European and US consumers pave the way for a fresh start for India's manufacturing industry, which, with the exception of a few success stories – the iPhone for example – is still hamstrung by its inability to compete with its Asian competitors? Time will tell whether 2026 will be for India what 2001 was for China.

<sup>1</sup> Since the 2024 general election, Narendra Modi's BJP has had to rely on its regional allies.

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