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The stars are aligned in favour of strong India-EU ties—here's how New Delhi should make the most of it

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SUMMARY

The European Union's trade friction with China offers India a chance to deepen economic ties with the bloc. With the 'mother of all deals' already signed, opportunity exists. Now the country must prepare to maximize gains.

The European Union (EU) is headed for a trade war with China. Alarm bells have been ringing in Brussels for a while now, and the 27-member bloc is putting in place aggressive measures to defend itself against dumping, overcapacity and supply-chain dependencies created by China, Europe's biggest source of imports.

Those measures come in the wake of the **EU-China trade** deficit reaching a massive €360 billion in 2025. EU exports to China totalled €199.5 billion, down 6.5% year-on-year, while imports stood at €559.5 billion, up 6.4%. The EU Trade Department has termed the relationship with China as "critically unbalanced" and blamed China's economic model for "systemic distortions."

European Trade Commissioner Maros Sefcovic made the bloc's displeasure clear in a meeting with his Chinese counterpart in Brussels a month ago. "China's exports to the EU keep rising, while our market share in China keeps shrinking. This trend is not sustainable. The *status quo* is not an option," Sefcovic reportedly said after the meeting.

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This January, India and the **EU** signed what European Commission President Ursula von der Leyen described as "the mother of all deals." Taken together, they comprise two billion people and 25% of global GDP. A survey by the Federation of European Business in India found that 75% of European businesses are interested in manufacturing and supply chain cooperation. However, less than 50% are interested in exploring India as a base for exports.

Given China's **trade** frictions with OECD countries, Vietnam, Malaysia, Thailand and Bangladesh have been beneficiaries of supply-chain shifts. While India's gross foreign direct investment (FDI) has increased, only a part of it represents fresh capital raised for new ventures. FDI in manufacturing has been at or below 0.5% of GDP, while for Vietnam it is almost 3%. Only two EU countries—the Netherlands and Germany—figure among the top 10 equity investors in India.

For India, the free trade agreement (FTA) brings an opportunity to not only increase exports to Europe but also attract FDI from there into manufacturing for exports. There is a need for a focused strategy.

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Review the model Bilateral Investment Treaty (BIT) law: We must signal to European businesses that we are serious about protecting their investments in India. Experts believe India's 2016 model BIT law deters multinationals that consider India as an investment option. The legal requirement to exhaust local remedies for a period of five years before commencing international arbitration is not in line with global practices. Investors are wary of judicial delays.

The US, UK, Germany, Indonesia, Vietnam and Japan have no such requirement. While it is good that India has started reviewing its model BIT law, we need short local remedy timelines, negotiations first and an arbitration window that investors find agreeable.

India recently signed a BIT with the UAE where the local remedy period was reduced to three years, but more needs to be done. Giving investors a choice between arbitration and domestic legal remedies, as in some nations, would also be welcome.

Industrial policy 2.0: China spends up to 4% of GDP on industrial policy annually, amounting to roughly $800 billion. In 2021, India announced a ₹1.96 trillion (roughly $25 billion) production-linked incentive scheme for 14 sectors. Considering China's high direct spending on manufacturing, India must scale up its PLI budget to around ₹4 trillion or offer similar new incentives as part of its industrial policy.

The PLI for smartphones has been highly successful. One contributing factor was the government's move to steadily reduce barriers for key inputs and raw materials.

This effort must be replicated across sectors. Change in tariffs and non-tariff barriers such as Quality Control Orders create hurdles for the very industries we are trying to incentivize. China and Vietnam have shown that rapid growth in exports is often accompanied by rapid growth in imports. Therefore, we should not be afraid of letting imports rise, at least in the sectors we are betting on for the long-term.

Chinese exports to Europe are concentrated in sectors such as electric vehicles, batteries, photovoltaic products and chemicals. India can throw its weight behind some of these sectors. This would encourage European companies to invest in India as a part of their China-plus-one strategy. To ensure that industrial policy is effective, we must improve the ease of doing business and avoid disruptive changes of policy.

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High-level global value chain task-force: India must consider one to attract European FDI in local manufacturing. The EU-India FTA creates the right noises, but we face competition from Vietnam, Indonesia and Thailand.

A dedicated taskforce to address issues faced by companies will send a strong message to global investors. While investments go to states, a task-force composed of central and state officials can address issues in a time-bound manner.

The EU-India FTA may kick in later this year or early next year and will provide an opportunity to double exports in five years. Capitalizing on that opportunity will require progress on at least three fronts: improving India's BIT laws, reinforcing the PLI policy and setting up a high-level task-force for integration with global value chains.

The stars are aligned in favour of a strong India-EU trade and business partnership that would serve both their needs.

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