



• ANALYSIS

The Chessboard Of Global Economy EU-India Free Trade Agreement and Its Impacts

Harun Türker Kara

THE CHESSBOARD OF GLOBAL ECONOMY EU-INDIA FREE TRADE AGREEMENT AND ITS IMPACTS

HARUN TÜRKER KARA

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SETA | SİYASET, EKONOMİ VE TOPLUM ARAŞTIRMALARI VAKFI

Nenehatun Cd. No: 66 GOP Çankaya 06700 Ankara TÜRKİYE

Tel: +90 312 551 21 00 | Faks: +90 312 551 21 90

www.setav.org | info@setav.org | @setavakfi

SETA | İstanbul

Defterdar Mh. Savaklar Cd. Ayvansaray Kavşağı No: 41-43

Eyüpsultan İstanbul TÜRKİYE

Tel: +90 212 395 11 00 | Faks: +90 212 395 11 11

SETA | Washington D.C.

1025 Connecticut Avenue, N.W., Suite 1106

Washington D.C., 20036 USA

Tel: 202-223-9885 | Faks: 202-223-6099

www.setadc.org | info@setadc.org | @setadc

SETA | Berlin

Kronenstraße 1, 10117 Berlin GERMANY

berlin@setav.org

SETA | Brussels

Avenue des Arts 27, 1000 Brussels BELGIUM

Tel: +3226520486

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This analysis addresses the transformation of foreign trade strategies from a liberalization-oriented framework toward a diversification-focused structure in an era of global uncertainties. It examines the European Union’s traditional protection-oriented trade measures alongside the emerging new dynamics within the framework of the EU–India Free Trade Agreement, and evaluates the potential implications of these developments for global trade as well as Türkiye’s position within this transformation process.

SUMMARY

The global trading system has undergone a structural transformation in recent years due to increasing geo-economic competition, protectionist policies, and supply chain shifts. U.S. tariffs and uncertainties in trade policies are weakening the functioning of the global trading system. Therefore, free trade agreements (FTAs) have become policy instruments in both political and security dimensions beyond their purely economic significance.

The European Union (EU) is reassessing its trade and industrial policies in light of developments in the global economy. The recently signed free trade agreement between the EU and India stands out as a concrete reflection of the EU’s risk diversification strategy amid increasing global uncertainties. The agreement plans to largely eliminate tariffs between the parties.

For India, the agreement represents a significant step toward strengthening its position in global value chains by gaining privileged access to the European market. For the EU, it is primarily important to develop alternatives to its China-centric production and supply infrastructure. From this perspective, the agreement signifies a geo-economic repositioning beyond mere trade gains. The EU is responding to global developments with such moves.

The agreement also has direct or indirect consequences for countries with intensive trade with the EU. From Türkiye’s perspective, the similarity in export structures to the EU market with those of India indicates that competitive pressure may increase in various sectors. Despite having a Customs Union agreement with the EU, Türkiye’s exclusion from the decision-making processes of the EU’s free trade agreements has the potential to create asymmetrical effects. This situation constitutes an area that needs to be carefully monitored, both in terms of Türkiye’s position in the EU market and its trade balance with third countries. In this context, Türkiye’s integration into the EU’s value chain, its commencement of steps in line with the EU’s green transformation, its logistical advantages, and regulatory harmonization stand out as points that can provide a competitive edge.

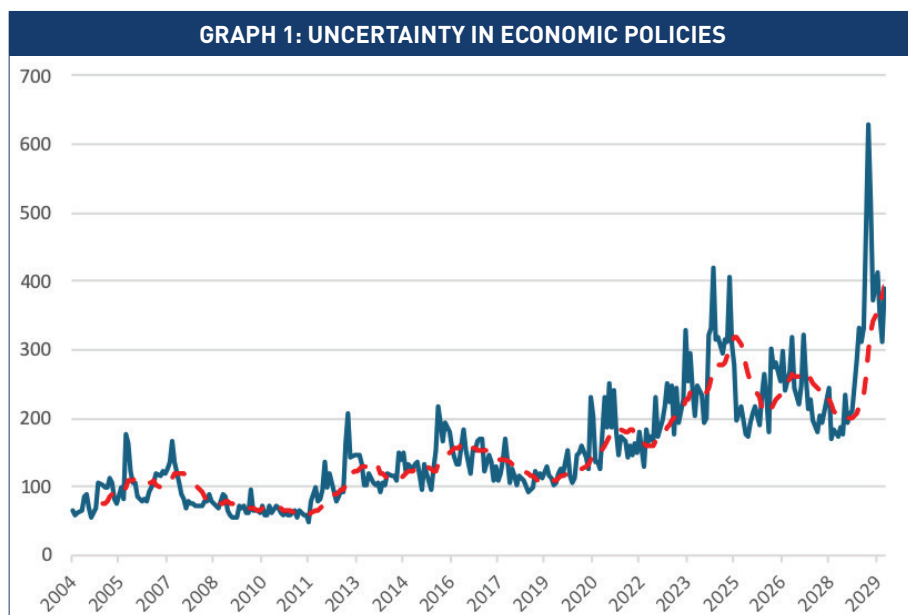
A NEW INITIATIVE IN THE AGE OF GLOBAL UNCERTAINTIES: FOREIGN TRADE FROM FREE TRADE TO DIVERSIFICATION

After nearly 20 years of negotiations, a free trade agreement was signed between the European Union and India, effective January 2026. This agreement comes at a time when uncertainties and geo-economic competition are becoming increasingly prominent in the global trade order. The erosion of the multilateral trading system and the weakening functionality of the World Trade Organization have transformed free trade agreements from classic policy tools into comprehensive instruments with foreign policy and security dimensions. The United States, one of the most significant actors in this transformation, has increased uncertainty in global trade policies with its protectionist trade policies and tariffs implemented in recent years .

The unpredictability caused by U.S. trade policies in value chains has led to a search for new alliances in the global economy. This situation has necessitated a reassessment of the European Union's trade networks and supply risks. These developments have shifted the EU's foreign trade policy from a purely market access-focused approach to a detailed strategic framework encompassing industrial policy, border security, and technology policies. Accordingly, the EU-India Free Trade Agreement should be considered a concrete reflection of the strategy to mitigate and distribute risks, diversify markets, and forge alternative partnerships in response to U.S.-based trade uncertainties. Furthermore, this agreement,

which has a history of nearly 20 years, will also influence the EU's industrial policies, particularly the "Made in Europe" approach.

The global economic system is moving away from a free trade-centered globalization paradigm toward a structure characterized by geo-economic competition, regionalization, and strategic bloc formation. World trade, which had achieved relative stability after the 2008 global financial crisis, lost momentum during the COVID-19 pandemic due to supply chain shocks, semiconductor crises, and energy security issues. These developments, along with the deepening U.S.-China technology competition, have brought about new windows for accelerating global trade. This situation, which has led to increased uncertainty in the global economy, has clearly demonstrated to the European Union that excessive external dependence is no longer just a matter of productivity, but it also creates an area of structural vulnerability.¹



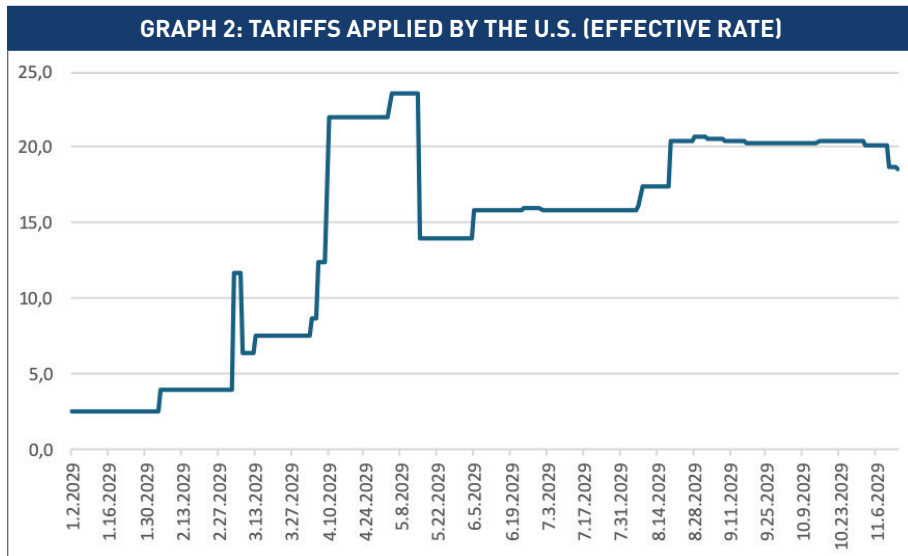
Source: "Economic" Policy "Uncertainty Index," Policy Uncertainty, <https://www.policyuncertainty.com/>, (Accessed Feb. 3, 2026).

The Economic Policy Uncertainty Index, which aims to measure the degree of uncertainty in the decision-making process of economic policies, has begun to rise above its historical averages from 2025 onward (Graph 1). The impact of the "Independence Day" tax regulations announced by U.S. President Donald Trump on April 2, 2025, is significant in this context. In April 2025, the uncertainty index reached its historical peak with the tariff decisions announced by Trump to be implemented globally. It is known that uncertainty shocks cause firms to postpone

¹Richard Baldwin and Richard Freeman, "Risks and Global Supply Chains: What We Know and What We Need to Know", *Annual Review of Economics*, Volume: 14, (2022), p. 169-170, 174.

export decisions, contracts import demand, and weakens direct investments.² In addition, it is known that global trade growth slows significantly during periods of extreme increases in the Global Economic Policy Uncertainty Index.³

Customs duties provide a clear example of the macroeconomic impacts of protectionist trade policies. These taxes, also known as tariffs, are known to pose downside risks to economic growth and productivity. Moreover, they increase unemployment and income inequality. These negative effects are particularly easy to see during periods of economic expansion and in developed economies. In contrast, the impact of taxes on the balance of trade is limited due to exchange rate adjustments. Overall, taxes harm economic well-being.⁴ When tariffs and trade policy uncertainty are considered together, lasting negative effects on output, investment, and employment can be observed.⁵ Studies on tariffs implemented during the Trump administration indicate that these policies could reduce the real Gross Domestic Product (GDP) and wage levels of the U.S. economy in the long term.⁶ In conclusion, while tariffs may be functional economically and politically in the short term, they can have negative effects on growth, price stability, and global economic integration in the medium and long term.



Source: *World Economic Outlook Update*, (International Monetary IMF Fund, Washington, DC: January 2026), <https://www.imf.org>, (Accessed February 3, 2026).

² *Global Financial Stability Report (World Economic and Financial Surveys)*, International Monetary Fund, 2025, <https://www.imf.org/en/Publications/GFSR>, (Access (Date : February 3, 2026), pp. xv–xvii.

³ *Global Financial Stability Report*, p. 1-3.

⁴ Davide Furceri, Swarnali A. Hannan, Jonathan David Ostry, and Andrew K. Rose, “Macroeconomic Consequences of Tariffs”, *IMF Working Papers*, Issue: 19/9, (2019), <https://doi.org/10.5089/9781484390061.001>, (Accessed February 3, 2026).

⁵ Lukas Boer and Malte Rieth, “The Macroeconomic Consequences of Import Tariffs and Trade Policy Uncertainty”, *IMF Working Papers*, Issue: 2024/013, (2024), p. 25, <https://www.imf.org/en/Publications/WP/Issues/2024/01/19/The-Macroeconomic-Consequences-of-Import-Tariffs-and-Trade-Policy-Uncertainty-543877>, (Access (Date : February 3, 2026).

⁶Effective Tariff Rates and Revenues (Updated) December 23, 2025”, *The Penn Wharton Budget Model*, December 23, 2025, <https://budgetmodel.wharton.upenn.edu/issues/2025/12/23/effective-tariff-rates-and-revenues-updated-december-23-2025>, (Accessed February 3, 2026).

The tariffs imposed by the U.S., a driving force in global trade, started at 2.6% in 2025, then rose to 24% in April. These tariff rates decreased to around 14% toward the end of the year (Graph 2). Following diversified tax policies, the average tariff rate increased again in August, hovering around 20% toward the end of the year, before falling below that level to near 18% after November. However, macroeconomic assessments indicate that Trump's tariffs risk reducing the competitiveness of global production by increasing trading costs, and that these effects are particularly pronounced in the manufacturing sector.⁷

Increased uncertainties in the global economy due to tariffs have made it imperative for the EU to redefine its trade policy not only from the perspective of market access and competitiveness, but also within the framework of political and economic security and strategic autonomy. In this context, the proactive and responsive policies that the EU will implement will be one of the most important indicators of whether the U.S. can continue its current trade policies. Studies by the European Commission analyzing the impact of these tariffs indicate that U.S. tariff increases will have a moderate but negative impact on the EU's gross domestic product, with the main source of this impact being the weakening of EU exports to the U.S. However, many sectors of the EU economy will be affected by this development.⁸

TRADITIONAL MOVE FROM THE EUROPEAN UNION: TO SUPPORT TRADE

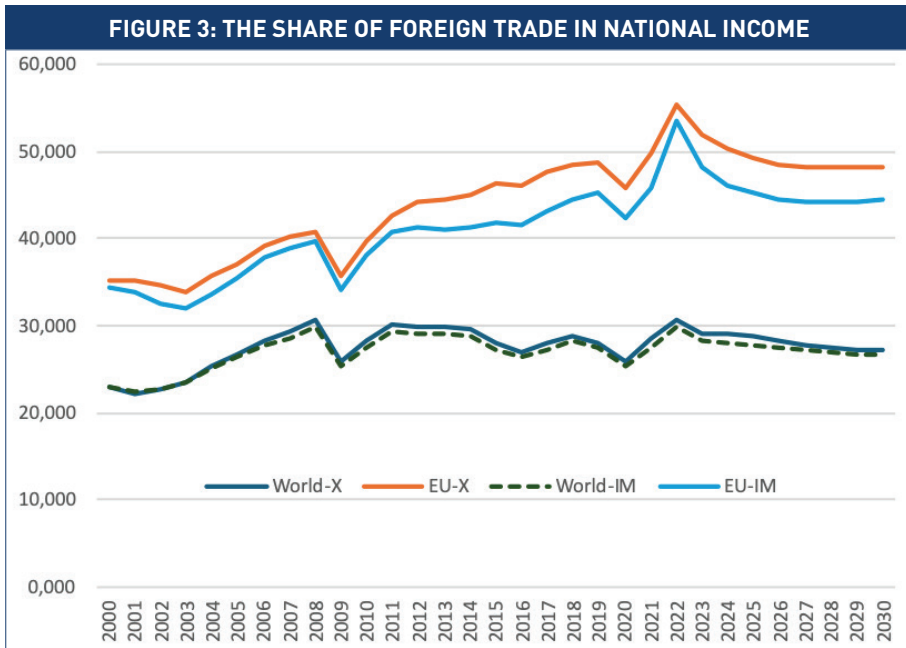
The European Union has long been taking various steps to maintain and preserve its position in global trade. One of the important steps taken in this context is the European Commission's 2021 Trade Policy Review. This document, with its "open strategic autonomy" approach, underlines the EU's commitment to continuing its integration into the global trading system while simultaneously increasing its control over critical technologies, essential industrial inputs, and strategic production areas.⁹ This approach is seen as an effort to adapt to the changing global landscape.¹⁰

⁷For detailed analyses: Beautiful Tariffs Risk Turning the Growth Outlook Ugly", *ING Think*, 2025, <https://think.ing.com/articles/beautiful-tariffs-risk-turning-the-growth-outlook-ugly>; "US Manufacturing Outlook: Trump- Fueled Optimism Fades on Tariff Worries", *ING Think*, 2025, <https://think.ing.com/articles/us-manufacturing-outlook-trump-fuelled-optimism-fades-on-tariff-worries>; "For the US, Trump's ' Beautiful ' Tariffs are in the Eye of the Beholder", *ING Think*, 2025, <https://think.ing.com/articles/for-the-us-trump-beautiful-tariffs-are-in-the-eye-of-beholder>; "Three Calls for Trade : All the Known " Unknowns ", *ING Think*, 2025, <https://think.ing.com/articles/three-calls-for-trade-all-the-known-unknowns>, (Accessed February 3, 2026).

⁸Gergő Motyvovszki, " The Macroeconomic Effects of US Tariff Hikes ", *European Economy - Discussion Papers*, No. 234, (European Commission , Directorate General Economic and Financial Affairs , 2025), p. 38-40.

⁹European Commission, " Trade Policy Review : An Open, Sustainable and Assertive Trade Policy (COM(2021) 66 Final)", *Publications Office of the European Union*, 2021, <https://op.europa.eu/en/publication-detail/-/publication/5b-f4e9d0-71d2-11eb-9ac9-01aa75ed71a1>, (Accessed February 3, 2026).

¹⁰Sergio Mariotti, "Open Strategic Autonomy as an Industrial Policy Compass for the EU Competitiveness and Growth : The Good, the Bad, or the Ugly ?", *Journal of Industrial and Business Economics*, Vol: 52, No: 1, (2025), pp. 20-21, <https://doi.org/10.1007/s40812-024-00327-y>, (Accessed February 3, 2026).



Source: "World Economic Outlook", (Washington, D.C.: International Monetary IMF Fund , October 2025), <https://www.imf.org> , [Accessed Feb. 3, 2026].

The EU’s primary goal with these policies is to achieve a more resilient, influential, and less vulnerable position in global value chains. The importance of foreign trade for the EU economy lies in the fact that its share of national income has always remained above the world average (Graph 3). Though there were temporary declines in the share of foreign trade in national income during the 2007-2008 global financial crisis and the COVID-19 pandemic, this indicator caught an upward trend again after these periods. However, it is estimated that the share of foreign trade in national income will gradually decrease in the post-2025 period, both at the EU and global economic levels. As a highly open economy, the EU cannot remain unaffected by developments in the global trade arena.

On this basis, it seems inevitable that the European Union will seek new ways to diversify trade relations and manage risks through strategic orientations and policy tools, rather than focusing solely on maintaining commercial activities. Especially in an environment where global trade volume is declining and economic uncertainties are rising, it is predicted that such measures taken by the EU could have decisive effects on both regional and global economic balance and integration. This situation could reshape the EU’s capacity to interact with global economic policies, while reducing the vulnerabilities of its open economy.

The “Made in Europe” approach, considered important for European Union trade, offers an institutionalized and long-term industrial policy framework aimed at managing the economic, social, and environmental pressures faced by European manufacturing. This framework aims to reduce the costs of

the twin transformations – green and digital transformations – through artificial intelligence and circular economy applications, and to protect the global competitiveness of European industry. Through institutional arrangements, the “Made in Europe” approach aims to bring together industry, academia, government, and civil society actors on the same platform within the EU, creating economies of scale in R&D activities and ensuring the rapid transfer of research outputs to industry.¹¹

All these developments, along with the protectionist industrial and trade policies recently implemented by the U.S. and the increasing fragmentation trends in the global trade order, necessitate a reassessment of the European Union’s current industrial and trade strategies to “diversify risks.” In this context, the EU is reconsidering FTAs and trade partnerships and making new moves in the global economic chess game, both to maintain its competitiveness and strengthen its position in global value chains, in line with its strategic autonomy goals.

EU-INDIA FREE TRADE AGREEMENT

The EU-India Free Trade Agreement is one of the areas of implementation of this strategic framework. According to European Commission data, trade volume between the EU and India exceeds 180 billion euros (\$208.48 billion) and supports approximately 800,000 jobs across the EU. The new agreement envisages approximately 97% reduction or exemption of customs duties on EU exports to India.¹²

The trade agreement between India and the European Union, signed on Jan. 27, 2026, after nearly 20 years of negotiations, will eliminate or significantly reduce tariffs on over 90% of products in trade between the two sides. Under the agreement, India has agreed to gradually reduce tariffs on European-made automobiles from as high as 110% to just 10%, and to completely eliminate tariffs on automotive parts within five to 10 years. Furthermore, tariffs on machinery (currently 44%), chemicals (22%), and pharmaceuticals (11%) in India will be substantially reduced. On the EU side, existing tariffs ranging from 4% to 26% on labor-intensive products from India, such as textiles, clothing, leather, footwear, seafood, and jewelry, will be eliminated. The European Commission has stated that the agreement will eliminate approximately 4 billion euros in annual tariff costs for Indian exports to the EU.

¹¹EFFRA, “*Made in European Partnership : Strategic Research and Innovation Agenda*”, European Factories of the Future Research Association, 2023, <https://www.effra.eu/made-in-europe>, (Accessed February 3, 2026).

¹² European Commission, “*EU-India Free Trade Agreement: Factsheet and Impact Assessment*”, 2026, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/india_en; https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/india/eu-india-agreements/factsheet-eu-india-free-trade-agreement-main-benefits_en, (Access (Date : February 3, 2026).



For the EU, the real significance of this agreement lies not in trade gains but in its strategic political and economic diversification dimension

Within the current economic structure of the European Union, these changes are expected to double the volume of trade between the parties by 2032.¹³ These steps make the Indian market significantly more accessible to European industry. On the other hand, this move is also likely to alter India's integration into the global economy and the demand structure within the country. Furthermore, this step by the EU, Türkiye's largest foreign trading partner, will also have indirect effects on Türkiye's trade balance with third countries and the framework of the Customs Union.

For the EU, the real significance of this agreement lies not in trade gains but in its strategic political and economic diversification dimension. Concentrated supply chains are a significant risk area for Europe in the post-COVID era. Furthermore, tariffs imposed by the U.S. on China and China's policies have brought about a search for alternatives to China in the global economy.¹⁴ Unlike the strategy also known as "China+1,"¹⁵ the EU's goal is not to exclude China, but to add alternative and complementary production and supply centers alongside China-centric supply chains. This approach aims to make global value chains more balanced, more resilient and resistant to shocks. Consequently, India stands out as a partner that the EU needs to win over.

For India, the FTA with the EU is not merely a technical arrangement based on tariff reductions, but rather a deal aimed at strengthening India's position in global value chains by providing privileged access to the European market in a period of increasing global protectionism, and therefore is considered as a strategic step and it is the "mother of all agreements."¹⁶ The critical point here is that the EU-India FTA is not designed as a free-trade process that would weaken intra-European industrial capacity. On the contrary, the agreement is in line with the active industrial policies pursued by the EU to accelerate its opening up to the outside world. It is also expected that India, as the other party to the agreement, will see increased consumption from the EU market.

13 "This Is What's in the India -EU Trade Deal — and Who Stands to Gain", *CNBC*, January 27, 2026, <https://www.cnbc.com/2026/01/27/india-eu-trade-deal-tariffs-exports.html>, (Accessed February 3, 2026).

14 OECD, "Policies to Strengthen the Resilience of Global Value Chains", 2021, p.5, https://www.oecd.org/en/publications/policies-to-strengthen-the-resilience-of-global-value-chains_fd82abd4-en.html, (Access (Date : February 3, 2026).

15 Michela Madden, "Everything You Need to Know About China Plus One," *Z2Data, Insights*, September 29, 2025, <https://www.z2data.com/insights/everything-you-need-to-know-about-china-plus-one>, (Accessed (Date : February 4, 2026).

16 Shameek Godara, "India -EU Trade Deal : Beyond the 'Mother of All' Deals", *Lowy Institute*, 2026, <https://www.lowyinstitute.org/the-interpretor/india-eu-trade-deal-beyond-mother-all-deals>, (Accessed February 3, 2026).

NEW MOVES AND AGREEMENTS IN TRADE CHESS

The EU's deepening of relations with India is also a step that could have an impact within the context of transatlantic economic relations. The U.S. Anti-Inflation Act has created significant competitive pressures for European industry.¹⁷ In this context, while the EU-India FTA cannot be seen as a direct countermove against U.S.-centric industrial policies, it represents a strategic response that expands Europe's global economic maneuvering space. The EU aims to offset the asymmetrical effects created by U.S. tariffs by diversifying both production and market access through India.

The EU's carbon border adjustment and digital taxation initiatives demonstrate the increasing intertwining of trade policy with climate and industrial policy. The emphasis on harmonization of technical standards, sustainability criteria, and green transition financing under the EU-India FTA reveals that the EU continues to leverage its normative power globally through trade agreements.¹⁸

The conclusion of a comprehensive trade agreement between the EU and India, following nearly two decades of negotiations, represents a new turning point not only for global trade balances, but also for Türkiye's economic relations with the EU. India's long-known protectionist economy gaining broader and more privileged access to the EU market signals a repositioning of the EU's supply chains toward an Asia-centric one. While this development has the potential to increase imports from India for both the EU and Türkiye, it also risks creating downward pressure on Türkiye's competitiveness and market share, given its integration into the EU market under the Customs Union framework.

From Türkiye's perspective, the indirect effects of the agreement are not limited solely to competition in the EU market. The trade arrangements established between the EU and India could pave the way for Indian-origin goods to enter the Turkish market at relatively low costs and effectively tax-free. This creates an additional asymmetry for Türkiye, both in terms of its foreign trade balance and the competitive conditions for domestic producers.

THE IMPACT OF THE AGREEMENT AND FIRST REACTIONS

The European Union's recent trade agreements have sparked controversy within the bloc, with the agricultural sector playing a decisive role. The fundamental

¹⁷Adam Tooze, "Chartbook 220: Biden's 'New Industrial' Policy: Revolution in the Making or an Exercise in Defying 'Gravity'?", *Adam Tooze's Chartbook*, February 9, 2023, <https://adamtooze.substack.com/p/chartbook-220-bidens-new-industrial>, (Accessed February 3, 2026).

¹⁸Simone Tagliapietra, "EU Strategic Autonomy and Industrial Policy: Testimony Before the Committee on European Affairs at the French National Assembly", *Bruegel*, May 12, 2023, <https://www.bruegel.org/news/eu-strategic-autonomy-and-industrial-policy>, (Accessed February 3, 2026).

difference between the EU- Mercosur Agreement and the EU-India free trade agreement stems from the position of the agricultural sector within the agreement's architecture. The Mercosur process led to intense farmer protests and environmental objections within the EU regarding sensitive products such as beef, sugar, and poultry. The agreement with India, however, was able to proceed with less political backlash thanks to the significant exclusion of agriculture from its scope.¹⁹



On the Indian side, the agreement is seen as aligning with New Delhi's goals of securing an alternative position to China in global production chains and deepening industrial integration

On the Indian side, the agreement is seen as aligning with India's goals of securing an alternative position to China in global production chains and deepening industrial integration. However, there are also areas of opposition to the agreement within Indian domestic politics. In particular, the Communist Party of India [CPI(M)] opposes the agreement, citing its potential impact in the Middle East. The emphasis on Israel's Haifa Port as a logistical transit point and its connection to the India-Middle East-Europe Economic Corridor (IMEC) is at the center of the criticism.²⁰ This shows that the agreement is being debated in India, not only in economic terms but also in terms of domestic and

foreign policy.

On the U.S. side, the agreement between the EU and India is seen as an indication of the weakening of transatlantic trade cohesion. Statements from the U.S. Treasury Department focus on the claim that the EU is developing indirect flexibility regarding sanctions against Russia while deepening its relations with India. U.S. officials have said they expect Canada to take more supportive steps ahead of planned negotiations for the U.S.-Mexico-Canada Free Trade Agreement (USMCA).²¹ Along with these developments, President Trump quickly responded by announcing plans to reduce tariffs on Indian goods in exchange for India agreeing to end its oil supply from Russia.²² This approach indicates a continuation of tactical moves by the U.S. On the other hand, some U.S.-based think tanks, considering the Mercosur and India agree-

19 "Deutsche Wirtschaft Hofft Nach Indian Abkommen Auf Zusatzgeschäft", *Handelsblatt*, 27 January 2026, <https://www.handelsblatt.com/unternehmen/industrie/freihandel-deutsche-wirtschaft-hofft-nach-indien-abkommen-auf-zusatzgeschaef/100195142.html>, (Accessed: 2 February 2026); Sybille de La Hamaide, "Why EU Farmers Are Upset About Mercosur" Deal, *Reuters*, November 18, 2024, <https://www.reuters.com/world/europe/why-eu-farmers-are-upset-about-mercosur-deal-2024-11-18/>, (Accessed February 3, 2026).

20 "CPI(M) Slams India -EU FTA as 'Surrender of Economic ' Interests '", *The Hindu*, January 27, 2026, <https://www.thehindu.com/news/national/cpi-m-slams-india-eu-fta-as-surrender-of-economic-interests/article70557263.ece>, (Accessed February 2, 2026).

21 Mark Magnier, "US Treasury Chief Bessent Warns Canada on Trade Fights , Slams EU- India " Deal ", *SCMP*, January 29, 2026, <https://www.scmp.com/news/us/economy-trade-business/article/3341595/us-treasury-chief-bessent-cautions-canada-says-hes-disappointed-eu-india-deal>, (Accessed February 2, 2026).

22 Hakan Çopur, "Trump, Hindistan'ın Rusya'dan Petrol Alımını Durdurduğunu Açıkladı", <https://www.aa.com.tr/tr/dunya/trump-hindistanin-rusyadan-petrol-alimini-durdurdugunu-acikladi/3818160>, Anadolu Agency, (Accessed February 2, 2026).

ments together, point to a relative loss of weight for the U.S. in the global trade architecture.²³

Consequently, it is likely that the EU, which did not face political resistance within the bloc regarding this agreement, will continue to seek alternatives to its trade relations with China, the U.S will take steps to avoid losing India as a partner, and China will take steps focused on the “Global South” to maintain its competitiveness.

Accordingly, in the next section of this analysis, the effects of the EU-India free trade agreement will be examined by analyzing the EU’s foreign trade structure with Türkiye and India. First, the trade structure of India and Türkiye with the EU and the economic structures of both countries will be examined in general terms, and then the potential effects of the agreement will be analyzed. Finally, the potential negative consequences for Türkiye will be discussed within the context of the current functioning of the Customs Union. The following section will discuss the effects on Türkiye’s trade volume with the EU, its competitiveness by sector, and its foreign trade composition, as well as what Türkiye can do to improve its foreign trade.

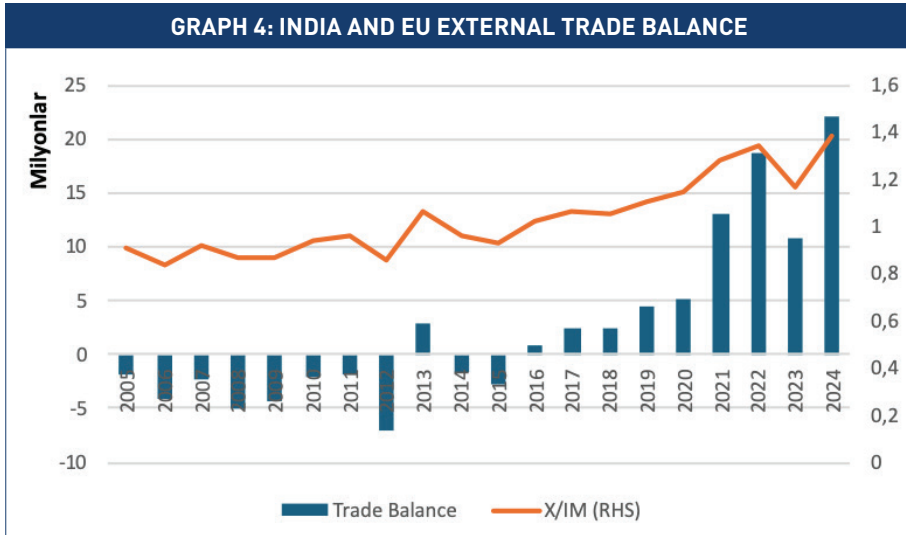
REFOCUSING GLOBAL TRADE

EU AND INDIA TRADE

When the external trade dynamics between India and the European Union are examined through Graph 4, it is seen that India has had a significant and sustained trade surplus with the EU in recent years. India, which had a structural trade deficit with the EU during 2005-2016, reversed this trend after 2016 and, particularly from 2016 onward, to become a country with a consistent trade surplus with the EU. This surplus has strengthened over time with increasing export performance and diversification of export composition. By 2024, it exceeded \$22 billion. As of 2024, the trade volume between the two countries is around \$135 billion.

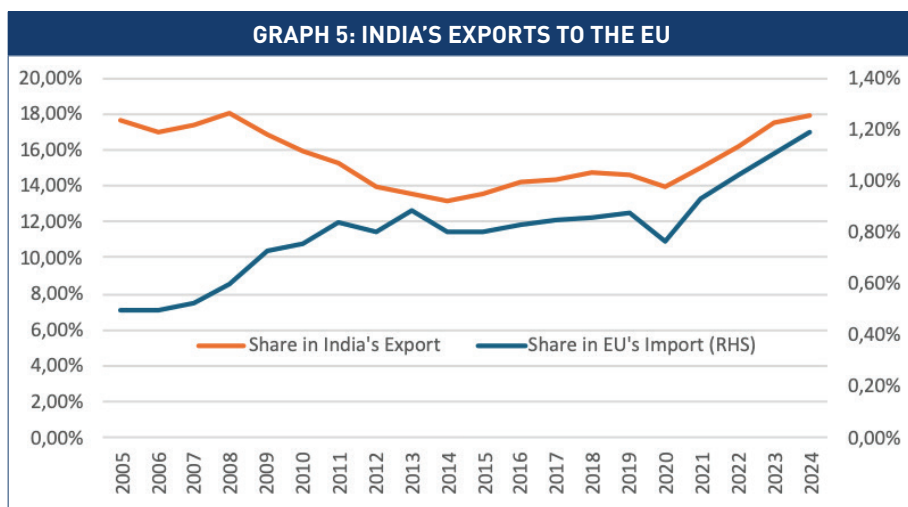
This transformation is also confirmed by the significant improvement in the export-to-import ratio. Indeed, while India’s exports to the EU covered around 90% of its imports from the EU in 2005, it has shown a gradual increase in the following years and has reached a level approaching 140% today. This development indicates that India’s competitiveness in the EU market has strengthened and that the asymmetry in bilateral trade relations has been reshaped in India’s favor.

²³ Austin Slater, “EU– India Trade Deal Exposes US Trade “ Vacuum Says ITIF”, *ITIF*, January 27, 2026, <https://itif.org/publications/2026/01/27/cu-india-trade-deal-exposes-us-trade-vacuum-says-itif/>, (Accessed February 2, 2026).



Source: "Bilateral Trade Between India and European Union (EU 27)," *Trade Map*, <https://www.trademap.org>, (Accessed Feb. 3, 2026).

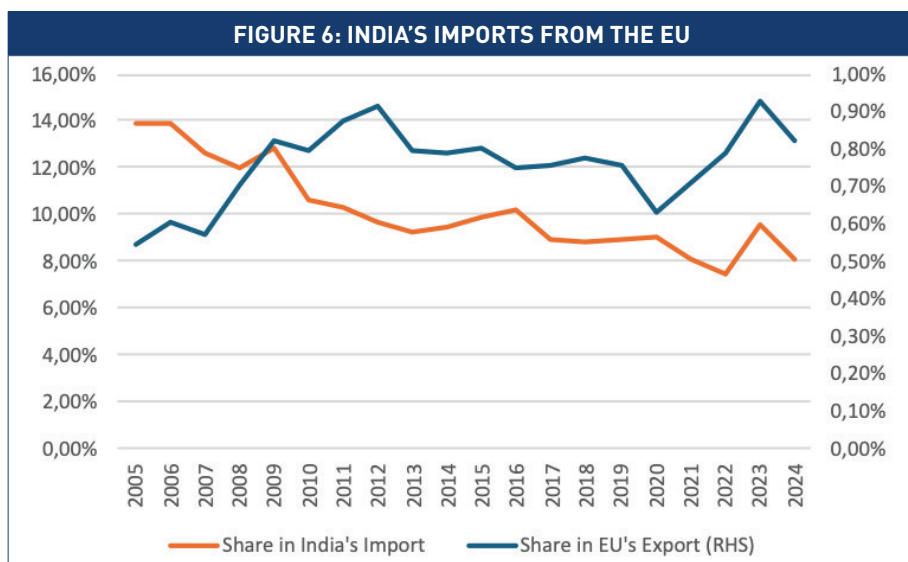
When examining the European Union’s share in India’s export composition, it is observed that this ratio generally hovers around 15%. This share, which fell below 14% in 2020 due to the negative impact of the COVID-19 pandemic on global trade, has shown a recovery trend in the following period and has increased in recent years, reaching a level approaching 18%. This trend indicates that the strategic importance of the EU market for India is strengthening. In addition, India’s share in the European Union’s imports is also showing an upward trend. This ratio, which fell below 0.8% in 2020 during the COVID-19 pandemic due to weakened global supply chains, has shown a gradual increase in the post-pandemic period and is approaching 1.2%. This development shows that India’s position within the EU’s external supply structure is gradually strengthening and that bilateral trade relations are deepening in favor of India (Graph 5).



Source: "Bilateral Trade Between India and European Union [EU 27]", Trade Map, <https://www.trademap.org>, (Accessed Feb. 3, 2026).

An examination of the European Union’s share of India’s total imports and India’s share of the EU’s total exports reveals that both indicators exhibit relatively fluctuating trends. India’s share of the EU’s total exports has averaged approximately 0.8% over the long term, while about 10% of India’s total imports originate from the EU.

However, these ratios have shown a downward trend in recent years. This indicates that the EU’s relative weight in the Indian market is weakening and that India is diversifying its import structure. These trends show that, despite the growth in the volume of bilateral trade relations, a rebalancing is taking place in terms of relative shares, to the detriment of the EU (Figure 6).

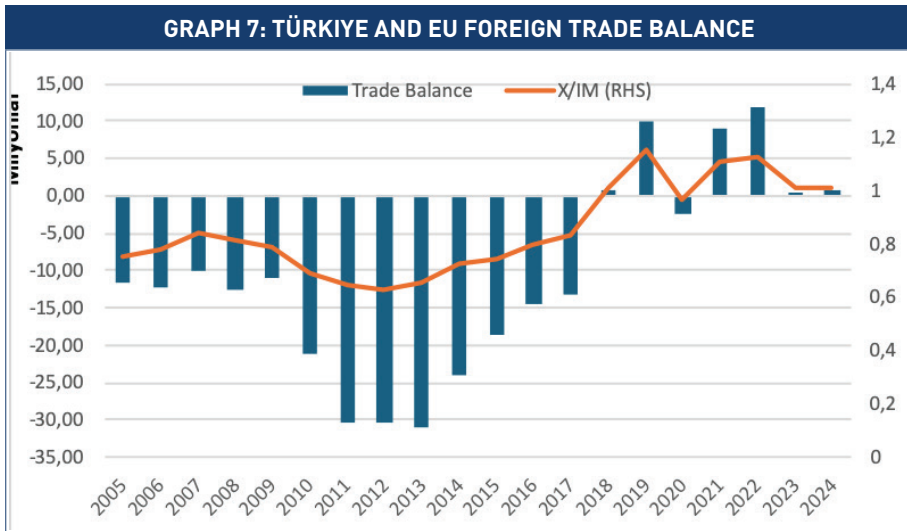


Source: "Bilateral Trade Between India and European Union [EU 27]", Trade Map, <https://www.trademap.org>, (Accessed Feb. 3, 2026).

EU AND TÜRKİYE TRADE

When Türkiye's foreign trade relations with the European Union are examined using Graph 7, it is observed that while the total trade volume has fluctuated over time, a significant improvement in Türkiye's foreign trade balance has been noted in recent years. In particular, the export-to-import ratio has remained consistently above 100% in the post-COVID period.

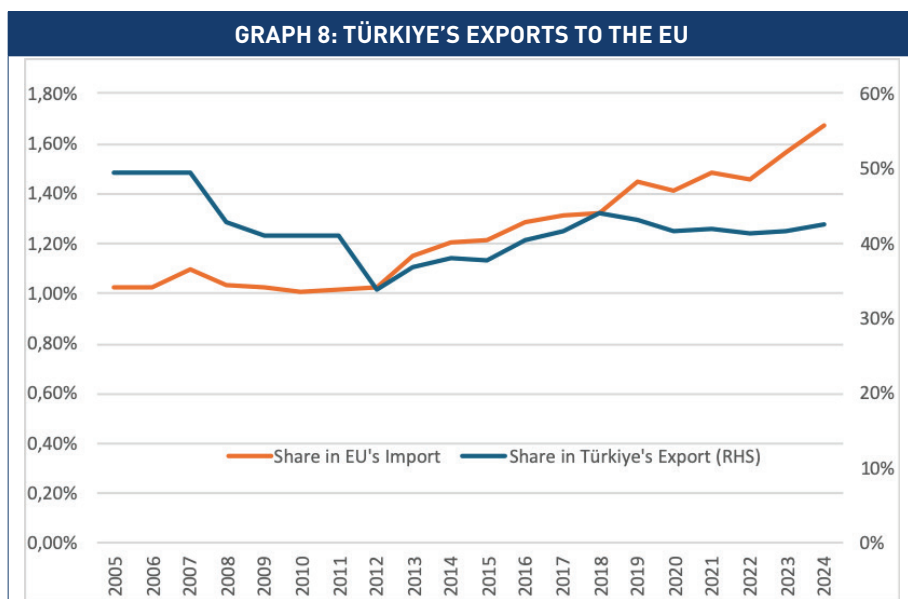
In parallel with this development, Türkiye has closed its trade deficit with the EU and has achieved a trade surplus in four out of the last five years. This trend continued in 2024; Türkiye's trade surplus with the EU reached approximately \$650 million. The current outlook indicates that Türkiye's export performance in the EU market has strengthened and that there has been a structural improvement in the bilateral trade balance.



Source: "Bilateral Trade Between Türkiye and European Union (EU 27)", Trade Map, <https://www.trademap.org>, (Accessed Feb. 3, 2026).

The European Union's share of Türkiye's total exports remained above 40% during the 2005-2024 period, and although a gradual downward trend was observed throughout this period, the EU maintained its position as Türkiye's most important foreign trade partner. This downward trend can be attributed to the geographical diversification of export markets and the increase in trade with third countries.

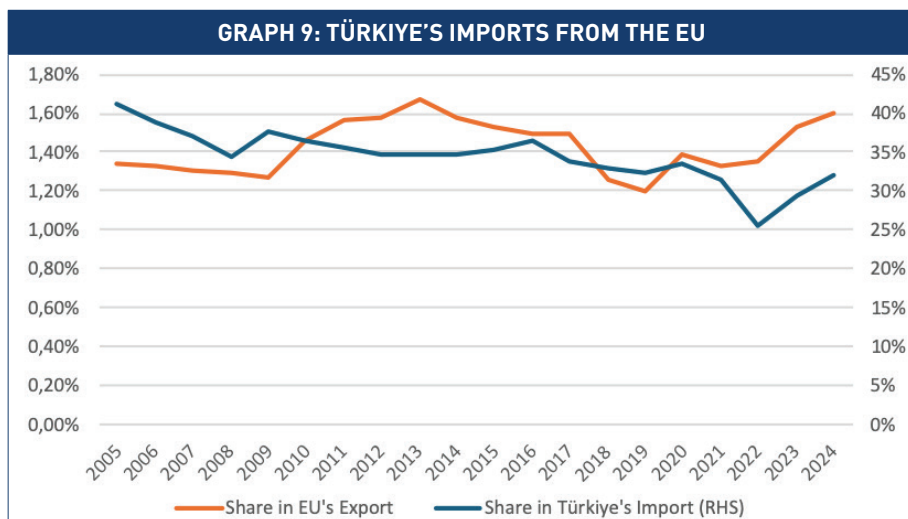
In contrast, Türkiye's share of the European Union's total imports has shown a steady upward trend and has exceeded 1.5% in recent years. This development indicates that Türkiye's relative position in the EU market has strengthened and that Türkiye is gaining increasing weight within the Union's external supply structure (Graph 8).



Source: "Bilateral Trade Between Türkiye and European Union (EU 27)," Trade Map, <https://www.trademap.org>, (Accessed Feb. 3, 2026).

Although the European Union’s share in Türkiye’s total imports has shown a decreasing trend over time, it still hovers around 30%. During the period examined, the long-term average share of the EU in Türkiye’s imports was approximately 35%. This indicates that Türkiye has diversified its import structure, but the EU retains its position as a primary supplier.

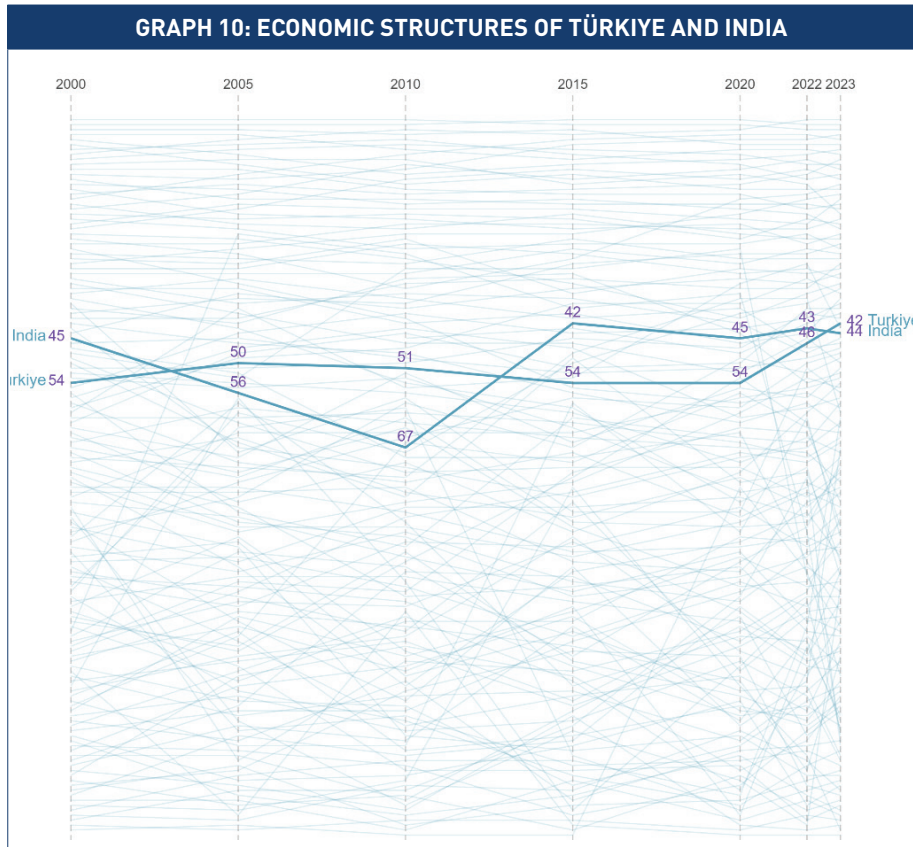
On the other hand, Türkiye’s share of the European Union’s total exports is approximately 1.6%. This rate has averaged around 1.4% over the long term, indicating that Türkiye’s relative position in the EU market has gradually strengthened in recent years (Graph 9).



Source: "Bilateral Trade Between Türkiye and European Union (EU 27)," Trade Map, <https://www.trademap.org>, (Accessed Feb. 3, 2026).

THE ECONOMIC DEPTH OF TÜRKIYE AND INDIA AND THEIR TRADE WITH THE EU.

ECI is a comprehensive indicator that measures the quality of a country’s production and export capacity by considering both the diversity of products it exports and the knowledge and technology intensity of those products. This indicator offers clues about how similar the economic structures of different countries are to each other.



Source: “The Atlas of Economics Complexity,” *Growth Lab at Harvard University*, 2024, <https://atlas.hks.harvard.edu>, [Accessed Feb. 3, 2026].

Graph 10 shows that in 2023, the year the data was most recently published, Türkiye had a higher level of economic complexity compared to India and stood out with its structurally more advanced production capacity. At this point, it is seen that Türkiye has generally been ahead of India since the beginning of the century, and the competition between the two countries is evident. Although India overtook Türkiye in the 2015-2020 period, Türkiye managed to regain a higher ranking. While the difference between the two countries has narrowed over time, it points to Türkiye’s more established industrial infrastructure and its more prominent role within global value chains. In addition, the similar and

constantly changing rankings of the two countries imply similarities in their economic structures.

The Economic Complexity levels of the two countries have converged by 2023, Türkiye maintains its relative advantage. This demonstrates that despite India's increasing competitiveness, Türkiye possesses structural advantages that can mitigate these risks. Its existing industrial depth, proximity to supply chains, role in global value chains, and long-standing integration with the EU offer Türkiye the ability to manage competitive pressure in foreign trade. In this context, while India is currently a significant competitor, Türkiye has the potential to improve its current position through appropriate policies and strategies.

INDIA			Türkiye		
	CHAPTER	AMOUNT		CHAPTER	AMOUNT
'27	Mineral fuels, mineral oils, and products of their distillation	17,417,136.00	'87	Vehicles other than railway or tramway rolling-stock, parts thereof	21,774,080.00
'85	Electrical machinery and equipment, parts thereof	11,270,052.00	'84	Boilers, machinery and mechanical appliances, parts thereof	9,876,331.00
'84	Boilers, machinery and mechanical appliances, parts thereof	4,997,443.00	'27	Mineral fuels, mineral oils and products of their distillation	9,323,521.00
'29	Organic chemicals	4,964,196.00	'85	Electrical machinery and equipment, parts thereof	7,264,179.00
'72	Iron and steel	3,951,792.00	'61	Knitted and crocheted goods and articles thereof	6,298,053.00
'30	Pharmaceutical products	2,853,244.00	'73	Articles of iron and steel	4,660,514.00
'71	Precious stones, precious metals, pearls and articles thereof	2,652,520.00	'39	Plastic and articles thereof	4,554,795.00
'87	Vehicles other than railway or tramway rolling-stock, parts thereof	2,288,599.00	'62	Non knitted and crocheted goods and articles thereof	4,350,618.00
'62	Non knitted and crocheted goods and articles thereof	2,259,968.00	'72	Iron and steel	4,136,579.00
'61	Knitted and crocheted goods and articles thereof	2,202,771.00	'76	Aluminum and articles	3,065,064.00

When the export structures of India and Türkiye to the European Union are compared in Table 1, it is seen that as of 2024, seven of the Top 10 export items of both countries, shaded in gray, are common. This indicates that the two countries trade with a highly overlapping product composition in the EU market.

From India's perspective, the total export value of joint product groups is approximately \$44 billion as of 2024. This represents 80% of India's total exports to the EU in the Top 10 product groups. Looking at the long-term perspective covering the last 20 years, this product group's share of India's total exports to the EU has consistently exceeded 60%.

From Türkiye's perspective, as of 2024, the total export value of joint product groups is approximately \$63 billion, which corresponds to 84% of Türkiye's total exports to the EU in the Top 10 product groups. Considering long-term trends in the last 20 years, it is seen that the share of this product group in Türkiye's total exports to the EU is approaching 70%. These findings reveal that both countries have product concentration and similarity in the EU market, and this constitutes a structural element that increases competitive pressure between the countries. In addition to this, Türkiye, which generally has a trade deficit with India, may also be negatively affected by this agreement through the direct trade channel with India. This trade deficit averaged around \$7 billion during the 2022-2024 period.

In conclusion, a detailed examination of Table 1 reveals that India and Türkiye share a significantly similar export structure with the European Union. These similarities, particularly following the EU-India free trade agreement, have the potential to create market competition-related risk areas for Türkiye. While mineral fuels and mineral oils constitute the largest share of India's trade with the EU, electrical machinery and equipment, as well as machinery and mechanical devices, also hold significant shares. The prominence of these same product groups in Türkiye's trade with the EU indicates that both countries have become direct competitors in the EU market. Machinery, electrical equipment and automotive-related intermediate goods, products related to the chemical and textile sectors, and various metals and minerals are noteworthy areas showing similarities in both countries' trade with the EU. However, motor vehicles as well as their parts and accessories, which constitute the largest share of Türkiye's trade with the EU, are also significant in India's export basket. Similarly, the overlap in the export profiles of the two countries in categories such as electrical machinery and equipment, iron and steel products, and clothing suggests that price and cost-based competitive pressure may increase in sectors where Türkiye is already strong.

In this context, the EU-India free trade agreement, which gives India an advantage in accessing the EU market, could lead to Türkiye, which is not included in decision-making processes despite being within the Customs Union, facing the risk of losing market share, especially in sectors like textiles, mining, chemicals, and automotive. However, Türkiye has the potential to overcome this risk with its deepening production structure.

IN CONCLUSION: TÜRKİYE'S ROLE IN THE DEVELOPMENT OF GLOBAL TRADE

The FTA signed between the European Union and India should be considered a reflection of the transformation in global trade balances. Comments suggesting that such agreements will create a direct and automatic loss for Türkiye are incomplete when considering its role as a logistics hub and its market diversification strategies in recent years. Türkiye is an export, production, and distribution center situated at the intersection of multifaceted trade networks connecting Europe, Asia, the Middle East, and Africa.

Türkiye's geographical location developed port infrastructure, road and rail connections, and integrated logistics capacity highlight critical elements such as "on-time delivery" and "flexible supply" in global value chains. From the EU's perspective, the increasing geopolitical risks, especially in recent years, have made the costs of dependence on excessively distant geographies in supply chains visible. In this context, Türkiye functions not only as a transit point for intermediate goods from Asia to Europe, but also as a value-added logistics and production hub. This role, beyond tariffs, constitutes a structural advantage in Türkiye's trade relations with the EU.

Considering all these characteristics, Türkiye has the potential to effectively compete economically with India by reducing the currently applied taxes, which are at a maximum of 26%, to zero. Furthermore, Türkiye's adaptation to the green transition is critical for its foreign trade with the EU. Steps taken by the bloc in this direction could create additional pressure on other countries, especially India. The increasing shaping of the EU's trade policies around green transition, digitization, and regulatory standards is also redefining Türkiye's position. Carbon border adjustments and sustainability obligations make access to the EU market more difficult, while creating a kind of "competition threshold" for countries that can comply with these regulations. Türkiye's long-standing experience in complying with EU legislation and its integration into value chains is a significant advantage in this regard. Türkiye will continue to emphasize this strength through steps it takes in the field of trade diplomacy.²⁴

Türkiye's market diversification approach, which has become prominent in its trade policy in recent years, reduces dependence on the EU market while strengthening integration into global trade networks. Increased visibility in Asian, African, and Latin American markets is achieved through free trade agreements, preferential trade arrangements, and target country strategies. This diversification

²⁴ For an example for this topic, see "Türk İş Dünyasından Avrupa Birliği Liderlerine Açık Mektup", Anadolu Agency, <https://www.aa.com.tr/tr/ekonomi/turk-is-dunyasindan-avrupa-birligi-liderlerine-acik-mektup/3816218>, (Accessed February 3, 2026).

enhances Türkiye's resilience to shocks in global trade and limits the macroeconomic impact of competitive pressure in a single market.

In conclusion, the EU-India agreement is not limited to the mutual opening of markets. This agreement represents a new move in the global economic chess game being played between the EU, the U.S., and China. Türkiye's strength in global trade is shaped by its capacity as a logistics hub, its diversified market structure, and its ability to adapt to the constantly changing regulatory environment of the EU. When these elements are considered together, it is foreseen that Türkiye will not be in a passive position in the face of developments in the context of global uncertainties, but will instead play an active and balancing role in the restructuring of global trade.

HARUN TÜRKER KARA

Dr. Harun Türker Kara, a faculty member at Ankara Medipol University, received his BA from Marmara University Department of Economics in 2006, his MA from Gazi University Department of Management Sciences in 2013, and his PhD from Ankara Yıldırım Beyazıt University Department of Finance and Banking in 2019. He has worked at TÜBİTAK, TCMB and TENMAK in his business life.

The Chessboard Of Global Economy EU-India Free Trade Agreement and Its Impacts

Harun Türker Kara

The global trading system has undergone a structural transformation in recent years due to increasing geo-economic competition, protectionist policies, and supply chain shifts. U.S. tariffs and uncertainties in trade policies are weakening the functioning of the global trading system. Therefore, free trade agreements (FTAs) have become policy instruments in both political and security dimensions beyond their purely economic significance.

The European Union (EU) is reassessing its trade and industrial policies in light of developments in the global economy. The recently signed free trade agreement between the EU and India stands out as a concrete reflection of the EU's risk diversification strategy amid increasing global uncertainties. The agreement plans to largely eliminate tariffs between the parties.

For India, the agreement represents a significant step toward strengthening its position in global value chains by gaining privileged access to the European market. For the EU, it is primarily important to develop alternatives to its China-centric production and supply infrastructure. From this perspective, the agreement signifies a geo-economic repositioning beyond mere trade gains. The EU is responding to global developments with such moves.

The agreement also has direct or indirect consequences for countries with intensive trade with the EU. From Türkiye's perspective, the similarity in export structures to the EU market with those of India indicates that competitive pressure may increase in various sectors. Despite having a Customs Union agreement with the EU, Türkiye's exclusion from the decision-making processes of the EU's free trade agreements has the potential to create asymmetrical effects. This situation constitutes an area that needs to be carefully monitored, both in terms of Türkiye's position in the EU market and its trade balance with third countries. In this context, Türkiye's integration into the EU's value chain, its commencement of steps in line with the EU's green transformation, its logistical advantages, and regulatory harmonization stand out as points that can provide a competitive edge.



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