



STRATEGIC PIVOT: THE INDIA-EU FTA AND ITS IMPACT ON TRUMP'S TRADE POLICY

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Abstract

In January 2026, after nearly two decades of negotiation, India and the European Union (EU) finalized a landmark Free Trade Agreement (FTA). This "mother of all deals" was not merely a commercial milestone but a geostrategy hedge against the aggressive "America First" 2.0 policies of President Donald Trump. This paper argues that the India-EU FTA acted as a critical catalyst, forcing the Trump administration to shift from a policy of maximum tariff pressure (peaking at 50% in late 2025) to a more transactional trade "truce" announced in February 2026. By securing a massive alternative market, India has effectively challenged the unilateralism of U.S. trade policy, creating a new "triangular" power dynamic in global commerce. This paper concludes that the India-EU FTA has fundamentally altered the leverage dynamics of the second Trump administration. It has resulted in a more resilient Indian trade posture.

Keywords: Trade, FTA, Policy, India, EU, USA, Global Economy

INTRODUCTION

The return of Donald Trump to the White House in 2025 ushered in an era of unprecedented trade volatility. Under his second administration, the U.S. moved toward a universal "reciprocal tariff" regime, which for India culminated in a staggering 50% duty on key exports by August 2025—a penalty largely attributed to New Delhi's refusal to halt Russian oil imports and a perceived personal slight regarding mediation offers in the 2025 India-Pakistan conflict. India emerged as the second-largest buyer of discounted Russian

crude oil, upsetting Washington. India has previously stated that its energy purchases were guided by market conditions and needs of 1.4 billion people but never made it clear if it will reduce or stop Russian purchases.

However, the geopolitical gravity shifted on January 27, 2026, when Indian Prime Minister Narendra Modi and European Commission President Ursula von der Leyen signed the India-EU FTA in New Delhi. This agreement, covering two billion people and 25% of global GDP, provided India with a "strategic escape hatch."

This paper examines how the conclusion of this trade deal influenced the Trump administration's decision to de-escalate trade tensions and seek a "Great Deal" with India just days later.

DISCUSSION

The Domino Effect: From Confrontation to Competition

The most immediate effect of the India-EU FTA on U.S. policy was the introduction of a "competitive fear" in Washington. For the first half of 2025, the Trump administration operated on the assumption that India had no viable alternative to the American consumer market. The conclusion of the EU deal shattered this premise.

By eliminating tariffs on 97% of European exports and providing Indian textiles and pharmaceuticals duty-free access to the Eurozone, the FTA threatened to lock U.S. firms out of the world's most populous market. Within a week of the EU-India announcement, President Trump pivoted, reaching a framework agreement to lower reciprocal tariffs on Indian goods from 25% to 18%.

Analysts suggest that the "America First" agenda cannot afford a scenario where European luxury cars and industrial machinery enjoy a 100% tariff advantage over American counterparts in the Indian market.

Regulatory Standards vs. Transactional Purchase Power

A significant point of divergence lies in the *nature* of the two trade regimes. The EU-India deal is built on regulatory alignment, including:

- **Sustainability:** Dialogue on the Carbon Border Adjustment Mechanism (CBAM).
- **Labor:** Enforcement of domestic labor laws without forced harmonization.
- **Digital Trade:** Cooperation on data privacy and IP protection.

In contrast, Trump's policy remains purely transactional. His February 2026 "truce" with Modi is predicated on "hard numbers"—specifically a commitment for India to purchase \$500 billion in U.S. energy and technology over five years. While the EU deal integrates India into a rules-based system, Trump's policy forces India into a "purchase-based" relationship designed to shrink the bilateral trade deficit.

The Russian Oil Factor: A Geopolitical Lever

Trump's trade policy toward India in 2025 was heavily weaponized to break New Delhi's energy ties with Moscow. The 25% "penalty tariff" was a direct response to India's 1.9 million barrels per day of Russian crude. The India-EU FTA provided India with the economic cushion to resist this pressure until a more favorable deal could be reached. The subsequent U.S. - India truce suggests that Trump has acknowledged the limits of tariff-driven coercion, opting instead to offer U.S. LNG and crude as a market-based alternative to Russian energy, rather than relying solely on punitive duties.

Conclusion

This paper attempted to examine how the conclusion of the India-EU FTA deal influenced the Trump administration's decision to de-escalate trade tensions and seek a "Great Deal" with India just days later. The India-EU FTA has fundamentally altered the leverage dynamics of the second Trump administration. It served as a "shotgun marriage" born of American protectionism, but it has resulted in a more resilient Indian trade posture. By playing the EU and the U.S. against one another, India has moved from a defensive, tariff-focused negotiator to a central pillar of the new global trade architecture. For the Trump administration, the lesson is clear: in a multipolar world, "America First" cannot succeed in a vacuum. If Washington pushes too hard, New Delhi simply looks across the Atlantic.

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