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The EU-India Partnership: The Risks of Strategic Hedging

by Vanessa Corrado

- The EU and India signed a landmark partnership, reflecting the relevance of strategic hedging amid current economic disruption.
- The partnership lacks clarity on green and rights-based standards, leaving unmanaged costs to fall on fragile sectors and communities.
- As such, it risks shielding India from domestic accountability, undermining the EU's credibility and embedding fragility in the partnership.

In January 2026, the EU and India signed an economic and defence partnership, pairing a free trade logic with a no-conditions security cooperation. This shows the relevance of strategic partnership amid current economic disruption.

The economic partnership primarily operates on the **cost structure**, reducing or eliminating tariffs and improving market access. The agreement nonetheless carries costs: it lacks clarity on green and rights-based standards and provides no mechanisms to manage the risks that this lack of clarity creates. As a result, these costs fall on fragile sectors and communities in India. The trade deal may unintentionally contribute to land grabbing and forced and child labour, while giving large corporates an

Vanessa Corrado *has a PhD in Asian History and Politics and works on post-1947 Indian history.*
vanessa.corrado@outlook.it

advantage over micro, small and medium-sized enterprises (MSMEs).

The EU-India trade deal may unintentionally contribute to land grabbing and forced and child labour

The **no-conditions security cooperation** also extends to sharing advanced counterterrorism and extremism-prevention practices. This raises concerns about how the Indian government will deploy this knowledge, given its **record** of branding critics, activists and journalists as extremists.

The absence of mechanisms to manage these risks provides a shield for the Indian government against accountability for its democratic backsliding. The same lack of clarity undermines EU's credibility on green and human rights standards that are central to EU's global standing.

Left unmanaged, these costs also embed fragility into the partnership over the medium to long run.

As such, the EU-India partnership can be read as a case study in a wider drift towards strategic hedging, one that traces the unmanaged costs of that drift: for India's domestic accountability, for EU's credibility and for the durability of the partnership itself.

The EU-India partnership

The partnership includes a **trade deal** that reduces or eliminates about 90-95 per cent of tariffs. If ratified, the EU will drop his duties to zero for most of its machinery and industrial goods, while India will reduce its high duties from 110 per cent to 10 per cent on European cars. Though India will keep significant tariffs on EU's alcoholic beverages, it will remove duties on non-alcoholic beverages and processed food. Indian exports of textiles, leather, jewellery, pharmaceuticals and refined products are expected to grow, as EU eliminates tariffs on them.

Because agriculture is a sensitive sector, EU tariffs remain unchanged, except for some items for which India gains in-quota access. Both partners are also negotiating a **separate agreement** to protect EU farming products.

The partnership includes an agreement on services and professional mobility, facilitating the exchange of students and skilled workers. It will expand India's exports of IT and professional services, with India making concessions in financial services.

On the same occasion, EU and India also signed their first-ever **Security and Defence Partnership**, strengthening strategic consultations and joint initiatives in the Indo-Pacific. The agreement is expected to foster collaboration across a range of areas, including supply chain security, maritime and space security, cyber defence and counterterrorism.

The relevance of strategic hedging

US punitive tariffs and the divisive reception of the EU-Mercosur agreement received in the European Parliament made the signing of the EU-India partnership a notable achievement. Breaking a deadlock that had lasted for years, both parties showed that they share complementary interests, alongside a sensitive sector – agriculture – which the agreement addresses through selective reductions. This outcome positions the EU-India partnership as a model for future cooperation, suggesting that a mutually beneficial relationship remains possible in times of economic uncertainty.

The defence partnership reflects this same alignment of respective interests: it is a concrete result of the broader European rearmament initiative and is consistent with India's commitment to strengthen its defence strategy.

The partnership shows that EU has turned to *Realpolitik*. For its part, India has shown that pragmatism can make its non-aligned foreign policy resilient, enabling partnerships with countries in conflict with one another, such as EU-Russia, US-Russia and Israel-Iran.

Another example of diplomatic impasse that the economic uncertainty introduced by US tariffs has seemingly addressed is the **Canada-India relationship**. In March 2026, the Prime Ministers of both countries met in India, launching negotiations for the Canada-India Comprehensive Economic Partnership Agreement, while in June 2026 they signed a **memorandum of understanding** for a partnership on technology and innovation. These developments follow a history of diplomatic tensions that had acted as a barrier. Notably, the **Nijjar Case** involved the assassination of two Canadian Sikh activists, ostensibly ordered by the Indian government, which regarded them as terrorists.

What makes this relationship a case of hedging is that the Canadian government, following a change of administration, has **set aside** legal concerns about a third country carrying out extrajudicial executions on its soil to pursue **trade diversification** and mitigate the effects of the US trade war. This new phase has however raised concerns within the South Asian diaspora and among Sikh activists living **under threat** in Canada. Proceeding with caution also seems advisable, given the risk that Canadian firms could gain little from a landscape where other competitors such as UK, EU, Australia, have secured access to Indian market, while India would still gain easy access to Canada's market. The unresolved allegations of Indian interference in Canada's public security remain a liability and could undermine the partnership.

No-conditions partnerships may now prove to be a viable alternative to traditional fixed alliances as hedge against market unpredictability. However, this new drift also brings its own specific risks.

The risks of the EU-India partnership

Many **Indian MSMEs** lack the preparation to meet European standards for imported goods. Consequently, they risk missing out on the market access benefits promised by the deal, while large corporates gain most of the benefits of tariff elimination.

> *The EU-India partnership lacks clarity on green standards*

Key Indian export sectors (garment, leather and textile) also rely on **forced and child labour**. The Indian government has neither addressed the issue through a dedicated programme nor through ratifying the relevant International Labour Organization's articles. Additionally, the already precarious situation of Adivasi communities[1] inhabiting resource-rich areas is likely to worsen: **illegal land grabbing** by authorities is driven by rising international demand for critical raw materials for supply chain security.

These issues are longstanding in India, but they have deepened under the **Modi government**. Unintentionally, the agreement's silence functions as a legitimacy cover, shielding the Indian government from accountability for its democratic backsliding.

Alongside this, the partnership lacks clarity on green standards. Since the bulk of India's exports are produced using coal, EU importers would have to buy emission certificates in keeping with the Carbon Border Adjustment Mechanism (CBAM), forcing Indian producers to lower export prices.

The partnership also pairs a free trade logic with a no-conditions security agreement. This

1 The term refers to the Indian indigenous communities.

raises concerns for the contested region of Kashmir, currently under New Delhi's **direct control**. Here, the counterterrorism and extremism-prevention practices shared under this cooperation could be misused to entrench control over a territory already affected by violations of human and minority rights. More broadly, counterterrorism laws have already been used to target government critics elsewhere in the country: this is a pattern of democratic backsliding that the partnership's framework does not take into account.

These unclarities run counter to the European Parliament's **recommendations** for a climate and rights-based framework for EU-India relations. In neither case does the partnership include mechanisms to manage these risks: climate and human rights are central to EU's global standing, and by leaving both exposed as unmanaged side effects, the deal risks EU's credibility.

In the long run, the concerns outlined above may prove to be points of friction rather than sources of leverage. Once the agreement is signed without support mechanisms, fragility becomes structurally embedded in the partnership itself.

Ways ahead

The EU-India partnership foregrounds the intent of fostering a new bilateral relation, but the readiness to pursue strategic hedging could undermine those very opportunities.

Clarity on CBAM adjustments and EU technical support in compliance infrastructure could ease procedures for Indian MSMEs and avoid the contradictory consequence of removing tariffs while asking for carbon levies. It would show that CBAM is about emissions reduction, and not misused as hidden Western protectionism, as India has viewed it so far.

At the same time, support programmes to tackle forced and child labour could help India retain access to export markets that restrict imports linked to these practices, strengthening its business environment and economic sovereignty.

Building minimum conditions into the defence partnership, and into supply chain security measures where they entail land grabbing, could at least provide a framework to build on later. This would also give EU leverage to defend its credibility.

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Via dei Montecatini, 17
I-00186 Rome, Italy
T +39 06 6976831
www.iai.it

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