

# India-EU FTA, Middle East outreach and the Union Budget: The geo-economic and geopolitical importance

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The last few days have been witness to several important developments both in the economic and geopolitical context.

On February 1, 2026 Finance Minister Nirmala Sitharaman presented the Union Budget. If one were to look at some of the important aspects of the Budget pertaining to foreign relations and strategy.

## **Budget allocation for neighbourhood**

If one were to look at budget allocations in the neighbourhood for 2026-2027, India has not allocated any funds for the strategically important Chabahar port project in Iran owing to the current turmoil in the West Asian nation. Due to strained ties with Bangladesh, it has reduced the development assistance for the South Asian nation to Rs 60 crore. On the other hand, Rs 2,288 crore — has been allocated to Bhutan as development aid, while Rs 800 crore has been allocated to Nepal and Rs 550 crore to Maldives and Rs. 400 crore to Sri Lanka. The budgetary allocation for all four South Asian nations is higher than 2025-2026. At a time when India is trying to improve economic ties with the neighbourhood, the allocation for Afghanistan has been raised to Rs. 150 crore.

## **Defence Budget**

India raised its overall defence spending from Rs. 6.81 Lakh Crore to 7.85 Lakh crore (this represented a 15% increase and the defence budget stands at around 2% of the GDP). Given the geopolitical situation — especially post the conflict between India and Pakistan in May 2025 this is crucial.

With reference to attracting foreign investors one of the important announcements was a tax holiday till 2047 for foreign companies which will provide cloud services to customers internationally -- while using data centre services from India. Apart from this, Rs. 40,000 crore was put aside for semi-conductors as part of India Semiconductor Mission 2.0'.

## **Last Week of January**

The last week of January was witness to some important economic and geopolitical developments. It began with India and EU finalising a Free Trade Agreement (FTA) on January 27, 2026. While commenting on the deal, PM Modi said:

'People around the world are calling this the mother of all deals. This agreement will bring major opportunities for the 1.4 billion people of India and the millions of people in Europe'

He also referred to the finalising of the Agreement during the Budget session. Said PM Modi:

'FTA with EU is for ambitious India. I urge manufacturers to benefit from new markets opening for them. A new market has opened up, offer quality products to 27 EU member nations,'

EU chief Ursula von der Leyen described the deal as the 'mother of all deals'.

Under the FTA, EU will reduce tariffs on 99.5% of the items that India exports, while India has given tariff concessions on 97% of Europe's exports. The FTA would give market access

for Indian exports in several sectors including: textiles, pharmaceutical, leather and foot-wear, handicrafts.

The finalisation of the agreement happens at a time when there has been a deterioration in ties between the US and Europe and differences between India and the US over economic and geopolitical issues. Both sides have referred not just to the economic, but also the strategic importance of the deal.

### **India-Iran ties and the India-Arab Foreign Ministers meeting**

Two other important developments which have taken place specifically related to West Asia were the meeting between Deputy National Security Adviser (NSA) Pavan Kapoor with Iran's Supreme National Security Council Secretary Ali Larijani on January 28, 2026 (Ali Larijani belongs to an influential family of Iran). This meeting was important because it came amidst the current turmoil in Iran, threats of US strikes on Iran by Trump and the growing uncertainty regarding the strategically important Chabahar Port.

On January 31, 2026 India hosted the second India-Arab Foreign Ministers. Before the meeting PM Modi met with foreign ministers from Arab nations. According to a statement by the Prime Minister's office

'The prime minister reiterated India's continued support for the people of Palestine and welcomed ongoing peace efforts, including the Gaza peace plan'.

In a post on X, PM Modi said that the Arab world was a part of India's 'wider neighbourhood' he also highlighted the civilisational linkages and close people to people linkages between India and the Arab world. In his post, PM Modi also pointed to cooperation in areas like energy, trade and innovation and to further strengthen the relationship between both

External Affairs Minister, S. Jaishankar during his address at the India-Arab Foreign Ministers highlighted the changes taking place in the Middle East and while he said that the international community was focused on Gaza and the UN Security Council Resolution 2803 of November 2025. He also highlighted the need for finding a solution he also pointed to other conflicts in the region -- Sudan, Yemen and their impact. Jaishankar also articulated the holistic nature of the relationship. While pointing to the historical linkages he also underscored the fact that

'..The region has some of our largest expatriate communities, key energy sources, major trade relationships and increasingly, emerging technology and connectivity initiatives. We are crucial to each other when it comes to food security and health security'.

The External Affairs Minister also highlighted the fact that terrorism was a common threat to both India and Arab nations and pitched for greater global cooperation to deal with terrorism also called for a "zero tolerance" approach towards the same.

## **Conclusion**

In conclusion, the key geopolitical challenges for India are the global economic instability and confusion due to the economic policies of Donald Trump. The finalising of the India-EU FTA is crucial in this context from an economic and geopolitical vantage point as mentioned earlier and is important not just from the context of India-EU ties but also an example of how middle powers are seeking to adapt to the changing global order. The recent India-Arab Ministers meeting was also important given the current re-alignments in West Asia. New Delhi will have to respond with alacrity to the same. The Union Budget 2026-2027 also strongly reiterated India's strategic priorities – especially in the neighbourhood. Changing geo-political equations are impacting geo-economics and recent developments are a pointer towards steps being taken by India to adapt to the same.

*(Disclaimer: The views expressed above are the author's own and do not reflect those of DNA)*

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