



Trade • Policy

India–US Trade Deal Nears the Finish Line

Can Preferential Tariffs Unlock the Next Phase of India's Export Growth?

The economic relationship between India and the United States has become too large to be viewed only through the lens of tariffs. The United States is India's biggest merchandise export destination, an important market for technology and professional services, and a major source of investment, aircraft, energy products, advanced machinery and digital infrastructure. At the same time, India is one of the fastest-growing large markets available to American companies.



Despite these complementarities, the two countries have spent several years negotiating tariff reductions, agricultural access, digital-trade rules, technical standards and strategic issues such as India's purchase of Russian oil. The negotiations now appear to be approaching a decisive stage.

The agreement could provide significant opportunities for Indian electronics, engineering, pharmaceutical, textile, leather, gems and jewellery, machinery and agricultural exporters. However, the benefits will depend on the final tariff schedules, rules of origin and product specific exemptions. Moreover, the new US law authorising tariffs of up to 100% against large buyers of Russian energy has created an additional layer of uncertainty.

What's Happening?

India and the United States announced a framework for an Interim Trade Agreement in February 2026. This framework was designed as the first phase of a broader Bilateral Trade Agreement, or BTA, covering tariffs, non-tariff barriers, digital trade, investment, customs procedures, supply-chain security and economic cooperation.

The framework proposed reducing the US reciprocal tariff on several Indian products to 18%. The covered categories included textiles and apparel, leather and footwear, plastics and rubber, organic chemicals, home décor, artisanal products and certain machinery. Subject to the successful conclusion of the agreement, the United States also offered to remove the reciprocal tariff from several categories, including generic medicines, diamonds and selected aircraft components.

India, in return, agreed to reduce or eliminate tariffs on US industrial goods and several agricultural products, including tree nuts, fresh and processed fruits, soybean oil, wine and spirits, dried distillers' grains and animal-feed products. India also agreed to address market-access concerns involving medical devices, information and communication technology products, technical standards and certain agricultural goods.

However, the February announcement was a framework rather than a fully operational agreement. Product-level tariff schedules, implementation mechanisms, rules of origin and the competitive position of Indian goods relative to other exporting countries still need to be finalised.

This explains why the deal can be politically described as nearly complete while businesses are still waiting for it to be executed.

Why the US Market Is So Important for India

India's merchandise exports to the United States reached \$87.31 billion in FY2025-26, while imports from the US stood at approximately \$53.48 billion. Bilateral merchandise trade therefore reached almost \$140.8 billion, leaving India with a surplus of around \$33.8 billion.

The United States was India's largest export destination and its fourth-largest import source. Indian exports to the US alone represented almost 20% of India's total merchandise exports of approximately \$441.8 billion during the financial year.

The relationship becomes even larger when services are included. US government data shows that bilateral trade in goods and services reached an estimated \$239.6 billion in calendar year 2025, including approximately \$90.4 billion of services trade. India exported services worth around \$47.6 billion to the US, demonstrating that technology, consulting, research, finance and business services are increasingly important alongside physical goods.

India's merchandise exports to the US are also concentrated in a relatively small number of categories:

- Electronic goods: \$24.41 billion
- Engineering goods: \$19.61 billion
- Drugs and pharmaceuticals: \$9.47 billion
- Gems and jewellery: \$5.08 billion
- Readymade garments: \$4.83 billion
- Chemicals: \$4 billion
- Petroleum products: \$3.52 billion
- Cotton textiles and handloom products: \$2.67 billion
- Marine products: \$2.31 billion

The five largest categories contributed approximately \$63.4 billion, or almost 73% of India's exports to the United States. Electronics and engineering goods alone accounted for just over half. This concentration means that the final treatment of a few industries could determine most of the economic value of the agreement.

What the Previous Tariff Shock Tells Us

Indian exporters have already experienced the effect of steep US tariffs. During the six months from September 2025 to February 2026, when tariffs on several Indian products had increased to as much as 50%, average monthly exports to the United States fell to approximately \$6.5 billion. This compared with an average of \$8.1 billion during the preceding six months.

That was a decline of nearly 20% in the monthly run rate, although factors such as product exemptions, advance shipments and wider economic conditions also influenced the numbers.

The episode demonstrated three things:

First, high tariffs can rapidly affect price-sensitive sectors. An apparel exporter operating on a 6–10% operating margin cannot absorb an additional tariff of 25–50% without renegotiating prices or sacrificing profitability.

Second, companies often accelerate shipments ahead of a tariff deadline. This creates temporary export growth followed by a sharp slowdown, making the monthly data volatile.

Third, not all sectors are affected equally. Smartphones, generic medicines and some products covered by separate sectoral tariff systems received exemptions during earlier rounds. Therefore, investors should not assume that a headline tariff rate applies uniformly to all exports.

The Existing 10% Tariff Complication

Even before the final BTA has been implemented, Indian goods are operating under a complex structure of additional US duties.

In July 2026, the United States imposed an additional 10% duty on a portion of Indian exports under a Section 301 investigation involving forced-labour-related import restrictions. Approximately 45% of India's exports to the US were excluded, including generic pharmaceuticals, smartphones and certain products already subject to separate Section 232 tariffs.

The remaining 55% became subject to the additional 10% duty. The treatment of textiles under a separate mechanism was still being developed.

This is one reason India is seeking clarity before executing the BTA. If the agreement merely offers an 18% rate while separate tariffs can be added through Section 301, Section 232, sanctions legislation or product-specific investigations, the practical benefit may be lower than the headline suggests.

A commercially meaningful agreement must specify how the preferential rate interacts with these other tariff mechanisms.



Electronics: India's Largest Export Opportunity

Electronic goods worth \$24.41 billion were India's largest export category to the US in FY2025-26, accounting for about 28% of merchandise exports. Growth has been driven largely by smartphones and electronics assembly, which were excluded from the July 2026 Section 301 duty.

A durable trade agreement could expand India's role beyond final assembly into PCBs, chargers, batteries, semiconductor components, networking equipment and data-centre hardware, while supporting investment under production-linked incentive programmes.

However, rules of origin will be critical, as India-assembled smartphones still rely on components imported from third countries. The agreement must determine the level of local processing or value addition required for products to qualify as Indian.

A low threshold could raise US concerns about third-country goods being routed through India, while a high threshold could limit tariff benefits for Indian manufacturers. The larger opportunity, therefore, lies in the gradual localisation of India's electronics supply chain, not just higher smartphone exports.

What India Is Offering the United States

The agreement is not a one-way tariff reduction. India has agreed to lower barriers on US industrial goods and selected agricultural products. It has also committed to addressing concerns involving medical devices, ICT imports, international product standards and food regulations.

These concessions could increase competition for Indian producers of medical equipment, processed foods, edible oils, fruits, nuts, alcoholic beverages and selected industrial goods.

However, cheaper imports can also benefit Indian businesses and consumers. Lower tariffs on machinery, technology products and industrial inputs may reduce capital costs for domestic manufacturers. Increased imports of crude oil, LNG and coking coal could diversify India's energy supplies. Easier access to GPUs and data-centre equipment could support India's artificial-intelligence and cloud-computing ambitions.

The overall impact will depend on whether imports replace Indian production or provide inputs that raise domestic productivity.

What Does This Mean for Investors?

The agreement could benefit export-oriented companies in electronics, engineering, textiles, garments, leather, pharmaceuticals, gems and jewellery, marine products and specialty chemicals. However, the impact will depend more on each company's actual US revenue exposure than its sector classification.

A company with 40% of revenue coming from US customers may experience a much larger earnings impact than a competitor with only 5% exposure.

Electronics manufacturers could gain from supply-chain diversification but face origin-related challenges if reliant on Chinese components. Textile exporters may gain orders, though productivity and logistics remain important, while pharmaceutical companies will still depend on regulatory approvals and US pricing conditions.

Investors should monitor five factors:

- The final tariff applicable to the company's exact product category.
- Whether separate Section 301 or Section 232 duties continue to apply.
- The company's US revenue exposure and dependence on a few large customers.
- Its ability to satisfy rules of origin using Indian inputs.
- Whether higher volumes improve margins or merely require price reductions.

Suppliers of aircraft components, data centres, power equipment and logistics services could benefit indirectly from increased Indian purchases from the US. At the same time, some domestic producers may face greater competition from lower-tariff American imports.

Investors should not treat the agreement as an immediate earnings event, as signing, ratification, customs notifications and product-level implementation may take place at different times.

What's Next?

The immediate focus will be Piyush Goyal's upcoming discussions with the US Trade Representative. The negotiations must resolve the exact competitive advantage offered to Indian goods and how the BTA will interact with existing and future US tariffs.

The most important developments to monitor will be:

- Publication of the final legal text and product-level tariff schedules.
- The effective date of the agreement.
- Rules of origin for electronics, engineering products and textiles.
- Treatment of generic pharmaceuticals and auto components.
- Interaction with the existing 10% Section 301 duty.
- Any Indian waiver under the Russia-sanctions legislation.
- Details concerning agricultural access and technical standards.
- Whether the \$500 billion purchase intention is converted into commercial contracts.
- Progress towards the broader BTA covering services, investment and digital trade.

The agreement could eventually become one of India's most important trade arrangements. The US is already India's largest export market, and even a moderate tariff advantage could attract manufacturing investment, create jobs and integrate Indian companies more deeply into global supply chains.

However, the final outcome should not be judged only by whether an agreement is signed. Its success will depend on whether Indian exports grow faster, businesses receive stable market access, technology partnerships deepen and the increase in American imports strengthens rather than weakens India's domestic manufacturing capacity.

If the remaining tariff and sanctions issues are resolved, the India–US trade agreement could move the economic relationship from annual negotiations and tariff uncertainty towards a more predictable strategic partnership. If these issues remain open, the agreement may look impressive on paper while exporters continue to face uncertainty in practice.



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