
THE US-INDIA TRADE DEAL: ENDING THE ‘ANNUS HORRIBILIS’ OF 2025

Introduction

The India–U.S. Interim Trade Agreement, finalised on February 6, 2026, marks a historic "reset" in bilateral relations that primarily centres on a massive reduction in U.S. reciprocal tariffs on Indian goods from 50% down to 18%.¹ This deal effectively ends a 10-month period of intense trade friction and economic deadlock that had priced many Indian-manufactured goods out of the North American market.² The Executive Order signed on February 6, 2026, provided immediate relief from the most punitive trade measures imposed during the previous year.

It officially rescinded the 25% surcharge levied in August 2025 under the International Emergency Economic Powers Act (IEEPA), a direct penalty imposed in retaliation for India’s continued purchase of Russian crude oil. However, the relief is not unconditional. The order establishes a "snapback" mechanism, or "compliance trigger", where tariffs could be reinstated if Russian oil purchases resume. This is to ensure the alignment remains tied to geopolitical compliance.³

In exchange, India has also committed to eliminate or reduce tariffs on all U.S. industrial goods and a wide range of agricultural products, including tree nuts, fresh fruit, soybean oil, dried distillers grains (DDGs), and premium spirits (pulses excluded in the final revision).⁴ India has further signalled its ‘intent’ (revised from ‘commitment’) to purchase over \$500 billion in U.S.

¹Barun Deb Pal and Manmeet Ajmani, ‘Balancing external shocks and domestic reforms: Do U.S. tariffs erode India’s tax reform benefits?’ (IFPRI, 5 February 2026) <https://www.ifpri.org/blog/balancing-external-shocks-and-domestic-reforms-do-u-s-tariffs-erode-indias-tax-reform-benefits/> accessed 13 February 2026.

²Dr Nitish Kumar Arya, ‘The U.S.–India Trade Reset Is Really a Bet on Geoeconomic Alignment – Analysis’ (Eurasia Review, 8 February 2026) <https://www.eurasiareview.com/08022026-the-u-s-india-trade-reset-is-really-a-bet-on-geoeconomic-alignment-analysis/> accessed 13 February 2026; Archana Rao, ‘US to Reduce Tariffs on Indian Exports Within Days: India’s Commerce Minister’ (India-Briefing, 6 February 2026) <https://www.india-briefing.com/news/india-us-trade-deal-tariff-cuts-timeline-42471.html/> accessed 13 February 2026).

³Elizabeth Threlkeld, Akriti (Vasudeva) Kalyankar and Daniel Markey, *Implications of US-India Trade Announcements* (Stimson Center, 4 February 2026) <https://www.stimson.org/2026/implications-of-us-india-trade-announcements/> accessed 13 February 2026; The White House, *Fact Sheet: The United States and India Announce Historic Trade Deal* (9 February 2026) <https://www.whitehouse.gov/fact-sheets/2026/02/fact-sheet-the-united-states-and-india-announce-historic-trade-deal/> accessed 13 February 2026.

⁴Ibid.

energy products, aircraft, technology (including GPUs), and coking coal over the next five years.⁵ The Joint statement also confirms that the U.S. will remove tariffs on Indian aircraft parts and gems, while providing "negotiated outcomes" for generic pharmaceuticals (contingent on Section 232 national security findings), a critical sector for India, which provides over 45% of the generic medicine volume in the U.S.⁶

This agreement remains far more than a standard trade deal and is described as a "strategic bargain" that fundamentally realigns the economic and geopolitical relationship between India and the United States.⁷ At the 18% rate, India now holds a preferential edge over regional competitors who face higher U.S. tariffs, such as China (35%), Vietnam (20%), and Bangladesh (20%).⁸ It reinforces India's role as a counterweight to China and builds a "trusted partner" network for critical technologies.⁹ This is expected to revitalise labour-intensive sectors like textiles, leather, and gems and jewellery.¹⁰ Also, the tariff relief has come at a time when India is implementing major domestic tax reforms. The research indicates that the combination of lower U.S. tariffs and India's GST reforms can save approximately 0.2 percentage points of GDP growth, partially offsetting external trade shocks.¹¹

This article in the next section briefly traces the lead-up to the end of the 'annus horribilis' of 2025 and further analyses the deal implications to decode what this agreement truly means for the Indian economy.¹²

⁵[TOI Business Desk, 'India-US trade deal: What it means for the tech and digital sector.? Data center collab, GPUs & more'](#) (The Times of India, 7 February 2026)

⁶[TOI Bureau, 'India-US Trade Deal: Generic drugmakers to get "Negotiated Outcome" in Section 232 probe'](#) (ET Pharma, 7 February 2026)

⁷Nikita Bhoota, 'U.S.–India Trade Deal Framework and Sectors Likely to Benefit' (5paisa Blog, 3 February 2026) <https://www.5paisa.com/blog/us-india-trade-deal-framework-and-sectors-likely-to-benefit> accessed 13 February 2026.

⁸[Press Information Bureau, India Achieves Landmark Trade Victory, Unlocks \\$30-Trillion U.S. Market for Exports Across Key Sectors](#) (09 February 2026)

⁹Chahal Academy, '03 Feb 2026: India–US Trade Deal 2026' (Chahal Academy, 3 February 2026) <https://chahalacademy.com/indian-express-editorial-analysis/03-feb-2026/2519> Accessed 13 February 2026.

¹⁰[Harsh V Pant and Vivek Mishra, India and the US: Delivering on Trade Convergence](#) (Observer Research Foundation, 9 February 2026)

¹¹Pal and Ajmani, 'Balancing External Shocks and Domestic Reforms' (n 1)

¹²[Elizabeth Threlkeld, Akriti \(Vasudeva\) Kalyankar and Daniel Markey, Implications of US-India Trade Announcements](#) (Stimson Center, 4 February 2026)

An Analysis of the Deal: Tracing the Developments, Strategic Offsets, and Implications

The lead-up to the agreement was paved with intense geopolitical pressure rather than standard diplomacy. The process began in April 2025, when the U.S. Trade Representative (USTR) published "Terms of Reference" for a bilateral trade agreement aimed at "reciprocal trade", addressing both tariff and non-tariff barriers.¹³ However, what followed was not a smooth negotiation but months of quiet deadlock. During this period, specifically after August, Indian exports faced a combined 50% tariff wall in the US, comprising a 25% base rate and an additional 25% punitive penalty explicitly tied to India's refusal to stop buying Russian oil.¹⁴ The US linked these trade concessions to the war in Ukraine, seeking to cut off Russia's war financing by pressuring India to halt its energy trade with Moscow.¹⁵

The turning point came late on February 2nd. The announcement, made via social media, was so "market-moving" that it triggered an immediate frenzy in Indian stock markets; the Nifty IT Index jumped over 6%, and the Sensex surged by 2,400 points in a single session.¹⁶ This rally reflected the massive removal of the "uncertainty premium" that had weighed on the Indian economy for months.

While the deal offers major relief for exporters and potentially lifts India's GDP growth outlook by 20–50 basis points, it still remains controversial. The critics argue that the exchange is structurally "uneven".¹⁷ The core elements of this "uneven exchange" include the disparity in tariff reductions. India has committed to reducing or eliminating standard tariffs on all US industrial goods and a wide array of agricultural products. In sharp contrast, the US is lowering reciprocal tariffs to 18%, but this currently applies to only about 55% to 70% of Indian exports.¹⁸

¹³Nikita Bhoota, 'U.S.–India Trade Deal Framework and Sectors Likely to Benefit' (5paisa Blog, 3 February 2026) <https://www.5paisa.com/blog/us-india-trade-deal-framework-and-sectors-likely-to-benefit>

¹⁴The Hindu, 'India, USA reach trade deal: Timeline of key events leading to the pact' (The Hindu, 3 February 2026) <https://www.thehindu.com/news/national/india-usa-reached-a-trade-deal-timeline/article70586314.ece>

¹⁵Bhoota, 'U.S.–India Trade Deal Framework and Sectors Likely to Benefit' (n 13)

¹⁶Ibid.

¹⁷BBC News, 'US and India announce trade deal, tariff pact' (BBC, 6 February 2026) <https://www.bbc.co.uk/news/articles/c62036e10d90> accessed 13 February 2026)

¹⁸How hard will Trump's 50% tariff hit India, and what is Delhi doing about it? - The Guardian,

Furthermore, high-value sectors like generic pharmaceuticals, gems, and aircraft parts do not receive immediate relief and are subject to the "successful conclusion" of the full agreement.¹⁹

Compounding this trade imbalance loomed the controversy over purchase targets. The critics argued that India's stated commitment to purchase \$500 billion worth of US goods over five years is unrealistic and heavily skewed. At \$100 billion per year, this commitment would require India's annual imports from the US to more than double (from roughly \$42 billion in 2025).²⁰ Such massive purchases risk inflating India's import bill and eroding its trade surplus with the US, potentially putting pressure on its current account balance.²¹ In response to these concerns, the White House revised its factsheet on February 11 to reclassify this as "intent" rather than a binding "commitment".

Crucially, the economic relief is tethered to strict geopolitical compliance. The removal of the 25% punitive tariff is strictly conditional on India halting its purchase of Russian oil, subject to active US monitoring. The critics characterise this as a sacrifice of national policy autonomy for paltry economic gains.²² To fill its energy gap, India has committed to pivoting its energy procurement toward the United States and potentially Venezuela. Notably, Reliance Industries recently secured a US licence to resume direct purchases of Venezuelan crude. However, analysts warn that Venezuelan oil is "heavy" and sour; it remains unclear if India's public sector refineries possess the advanced infrastructure to process it as efficiently as the Russian crude they are replacing.²³

Domestically, the deal sparked concern over "vastly unequal economic conditions". While US agribusinesses gain access to a market of 1.4 billion people, Indian farmers fear that cheaper, subsidised US imports (like corn, soy, and nuts) will undercut domestic prices and destroy local

<https://www.theguardian.com/us-news/2025/aug/27/trump-50-percent-tariff-india-explainer>

¹⁹The Wire, 'The US-India Trade "Deal" Is Unbalanced and Potentially Devastating' (The Wire, 6 February 2026) <https://thewire.in/trade/us-india-trade-agreement-agriculture-farmers-tariffs-trump-unbalanced-devastating>

²⁰N Madhavan, 'The known unknowns: The six important unanswered questions about the US-India trade deal', *Mint* (3 February 2026) <https://www.livemint.com/economy/six-important-unanswered-questions-in-the-us-india-trade-deal-11770104130242.html>

²¹Abhishek Dey, 'Oil, Tariffs and Farming: What We Still Don't Know About US-India Trade Deal' (BBC News, 12 February 2026) <https://www.bbc.co.uk/news/articles/c62036e10d90>

²²The Wire, 'The US-India Trade "Deal" Is Unbalanced and Potentially Devastating' (n 19).

²³Madhavan, 'The known unknowns: The six important unanswered questions about the US-India trade deal' (n 20)

livelihoods.²⁴ Addressing this vulnerability, India successfully negotiated the exclusion of "Pulses" (specifically lentils and chickpeas) from the final concession list, shielding a critical subsistence sector from foreign competition. Finally, even with the reduction, an 18% tariff still leaves India uncompetitive in labour-intensive sectors like garments when compared to rivals like Vietnam or Malaysia, which face lower duties²⁵ Furthermore, unlike many of its peers, India remains excluded from the Generalised System of Preferences (GSP).²⁶

Yet, despite the imbalances, it offers significant strategic offsets too. It secures sustained preferential access to a U.S. market valued at over \$30 trillion, vital for India's ambition to become a \$10 trillion economy. Beyond trade, the deal accelerates technological integration. As India has secured expanded access to advanced Graphics Processing Units (GPUs) without the export restrictions applied to China, a critical enabler for the IndiaAI Mission.²⁷

Concluding Remarks

The India–U.S. Interim Trade Agreement of February 2026 marks a pragmatic reset, transitioning the partnership from strategic ambiguity to transactional clarity. By stabilising the tariff regime, the deal ends the economic deadlock of 2025 and positions India favourably within the "China Plus One" matrix. This creates a tangible opportunity for India to accelerate its manufacturing ambitions by leveraging a significant competitive advantage over regional rivals. However, this economic relief comes with strict geopolitical covenants. The agreement's "compliance trigger" regarding Russian oil introduces a new layer of vulnerability, effectively tethering India's market access to its foreign policy alignment. While successful negotiations, specifically the reclassification of purchase targets to an "intent" and the protection of sensitive agriculture, demonstrate India's diplomatic agency, the structural asymmetry of the exchange

²⁴Kristin Bakker, 'U.S. and India Outline Interim Trade Deal' *Feedstuffs* (10 February 2026) <https://www.feedstuffs.com/policy/u-s-and-india-outline-interim-trade-deal>

²⁵The Wire, 'The US-India Trade "Deal" Is Unbalanced and Potentially Devastating' (n 19)

²⁶Prabhu Dayal, 'India-US interim trade agreement offers a temporary breathing room' *Sunday Guardian Live* (8 February 2026)

²⁷Soumyarendra Barik, 'Trump Ends Biden-Era GPU Restrictions: How India Just Secured a \$200 Billion Data Center Windfall', *The Indian Express* (8 February 2026) <https://thewire.in/trade/us-india-trade-agreement-agriculture-farmers-tariffs-trump-unbalanced-devastating>

remains evident. Finally, the formal signing of this interim framework in mid-March marks a foundational step toward negotiating a Comprehensive Bilateral Trade Agreement.

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