US–India Trade Agreement Supercharges India's China+1 Play

On 2nd February 2026, India and the United States announced an agreement reducing reciprocal tariffs on Indian exports to the US from 25% to 18% and removing the 25% penal tariff imposed in response to India's imports of Russian oil. At the time, the finer details of the agreement were not publicly available, with information limited to a social media post by the US President Donald Trump. The post indicated that India had agreed to lower tariffs and non-tariff barriers on US imports, phase out purchases of Russian crude, and increase energy imports from the United States, with the possibility of sourcing additional supplies from Venezuela. In addition, India committed to expanding its overall imports from the US.

On 7th February, the US and India released a joint statement outlining a broad framework for an interim agreement.

Key Terms of the Interim Agreement:

- India will eliminate or reduce tariffs on all US industrial goods and a broad range of US food and agricultural products, including animal feed, tree nuts, fruits, soybean oil, wine, spirits, and other items
- The United States will lift national security-related tariffs on certain Indian aircraft parts, and grant India preferential tariff-rate quotas for automotive parts
- Subject to the outcome of the Section 232 investigation, India will also receive negotiated treatment for generic pharmaceuticals and pharmaceutical ingredients
- The US and India will set rules of origin to ensure the agreement's benefits mainly accrue predominantly to both countries
- India commits to removing long-standing non-trade barriers in medical devices, ICT goods, and food and agricultural products, by streamlining import licensing, lifting quantitative restrictions, and reviewing standards and testing requirements
- India plans to buy $500 billion in U.S. energy, aircraft, precious metals, technology products, and coking coal over five years
- The US and India agree to grant each other preferential market access in sectors of respective interest
- The US and India will seek to expand market access through Bilateral Trade Agreement (BTA) negotiations

While the joint statement avoids any reference to India's crude oil imports from Russia, the executive order issued by US President Trump on 6th February, which lifted the 25% penalty on India, states that India has committed to ceasing imports of Russian crude. The order also provides for the reinstatement of the penal tariff should India resume such imports. The order also notes that India has committed to a framework with the US to expand defence cooperation over the next 10 years.

The sensitive sectors for India, such as cereals, sugar, GM crops, dairy, meat, and poultry, are mostly excluded from the interim trade agreement.

Note that the United States is India's largest trading partner, with goods exports totalling US$87 billion in FY25, accounting for 20% of India's total exports. Imports from the US stood at US$46 billion (~6% of total India imports), resulting in a trade surplus of US$41 billion in India's favour.

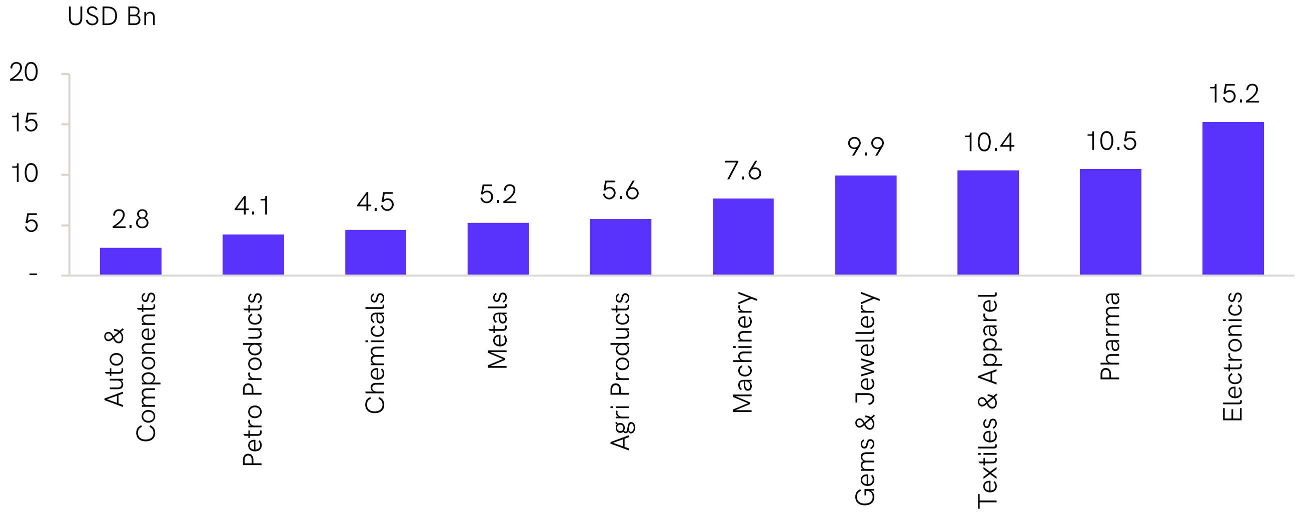
Impact on Key Sectors

The most significant implications are for labour-intensive goods, including textiles and leather, gems and jewellery, and agricultural products. These sectors were the hardest hit by the 50% tariffs, while other segments, such as pharmaceuticals, energy, and electronics, were largely exempt. Notably, these labour-intensive sectors also benefited from the EU–India FTA, under which the European Union significantly reduced tariffs on India’s exports. These developments provide a boost not only to exports but also to employment generation in India.

Other key sectors to benefit from the interim agreement include auto parts (preferential tariff quota), aircraft parts (removal of national security tariff), pharma (negotiated outcome post section 232 investigation), machinery and chemicals (lower duties).

Major sectors expected to experience strong competitive pressure from US imports include agricultural products, such as soybean oil (which could displace imports from other countries), fruits, and wines & spirits, as well as industrial goods, including machinery, ICT products, high-precision tools/semiconductors, and medical equipment.

India Top 10 Exports to US in FY25

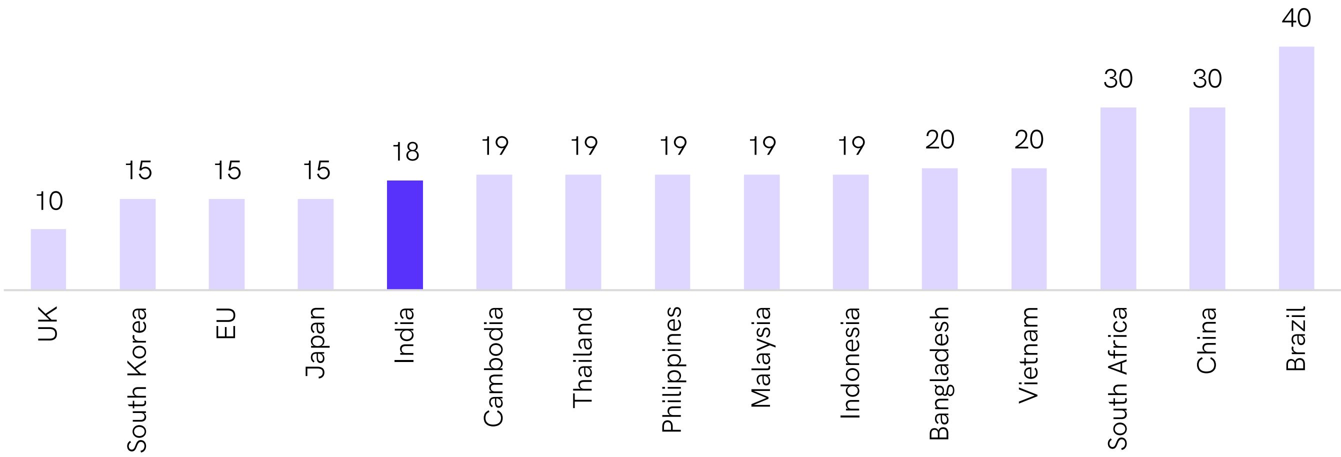


Source: CMIE, Ministry of Commerce, 360 ONE Asset Research

China+1 Strategy Gets a Boost

The announcement of a trade agreement (interim) setting the tariff rate at 18% places India marginally ahead of other competing markets under the China+1 strategy from an export competitiveness perspective. When combined with trade arrangements with the European Union (India's second-largest trading partner), the United Kingdom, Australia, New Zealand, the European Free Trade Association, and others, India has positioned itself as one of the most attractive manufacturing destinations for countries and corporations seeking to diversify supply chains away from China.

US Reciprocal Tariff Rates (%)

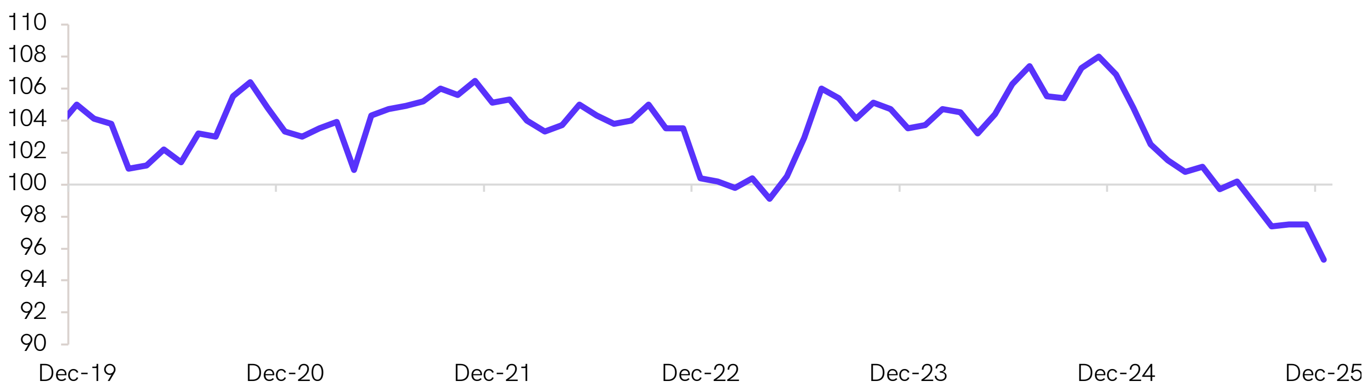


Source: Kotak Institutional Equities, 360 ONE Asset Research

INR Gets a Breather

The INR has been deeply undervalued on a Real Effective Exchange Rate (REER) basis. The trade agreement is sentimentally positive for the INR, which had been under pressure despite a strong macroeconomic environment. Following the announcement, the USDINR has already retraced from near the 92 level to closer to 90. In the short to medium term, Foreign Portfolio Investor (FPI) flows may improve, providing support to the INR. Over the longer term, the trade deals India has signed are expected to have a net positive impact on the current account by bolstering export growth, helping moderate INR depreciation.

REER: Trade weighted: 40 currency: CPI based: Base year= 2015-16



Source: RBI, 360 ONE Asset Research

Supportive of the Equity Markets

The delayed signing of the India–US trade agreement has weighed on equity markets, exerting pressure on the INR and contributing to foreign portfolio investor (FPI) outflows. In the short term, a partial reversal of these trends appears possible, as reflected in the recent stabilisation of the INR, which could provide support to equity markets and improve investor sentiment.

Outlook

We have consistently maintained that the higher tariffs on Indian exports to the US were not significantly negative for India, as US exports account for only around 2% of India's GDP, and key exports were already exempted, limiting the impact to certain non-exempted sectors. The reduction in the tariffs removes even this limited negative effect. More importantly, in the broader context, the conclusion of multiple trade agreements positions India to gain substantially in manufacturing and exports over the medium to long term, thereby enhancing the country's growth prospects.

Source: Ministry of Commerce, CMIE, The White House, PIB

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