

# India-US trade deal:

Recent developments, impact and what lies ahead

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On 6 February 2026 the India-United States of America (US) joint statement (Joint Statement) was released outlining a framework for an interim trade agreement (Interim Agreement) that immediately removes the punitive 25% tariff on Indian goods<sup>1</sup>, envisages reduction of US reciprocal tariffs on Indian goods from 25% to 18% and commits India to tariff cuts on US industrial and agricultural products, alongside a \$500 billion purchase commitment from US over the next five years.

This Joint Statement is a culmination of the negotiations launched from February 2025 amid escalating US tariffs against India.

## Background

US-India trade ties have evolved from a post-independence focus on aid to strategic partnerships, but tensions arose in 2018 with Section 232 steel / aluminium tariffs and Generalised System of Preferences revocation in 2019. In April 2025, the US intensified focus on invoking a trading framework imposing "reciprocal tariffs" on all countries to address higher duties faced by US exports and trade deficits. Pertinently, India and US had launched talks for a Bilateral Trade Agreement (BTA) in February 2025 itself.

The upcoming Interim Agreement, expected to be signed by March 2026, will not merely act as a de-escalation step but also an important precursor towards the full-fledged BTA.

## US Tariffs - Timeline

- 2 April 2025: US imposes 26% reciprocal tariff on Indian goods via Executive Order 14257.
- 9-10 April 2025: 26% tariff suspended for 90 days (till 9 July); 10% baseline duty remains.
- 8 July 2025: Tariff pause extended to 1 August.
- 31 July 2025: 25% tariff announced on all Indian goods.
- 6-7 August 2025: Additional 25% penalty tariff for Russian oil buys, totalling 50% effective 27 August.
- February 2026: Joint statement sets effective US tariff on Indian goods at 18%; zero on select goods post-Interim Agreement.
- 7 February 2026: Punitive tariff of 25% is eliminated

<sup>1</sup> By Executive Order dated 6 February 2025, effective from 7 February 2025, the 25% additional punitive duty on imports from India imposed earlier pursuant to Executive Order 14329 dated August 6, 2025 (*Addressing Threats to the United States by the Government of the Russian Federation*) has also been removed.

## Key aspects expected to be covered in the Interim Agreement

The following points emerge on the basis of the Joint Statement and media interactions by the respective Governments:

- India shall remove or reduce current import duties on all US industrial goods and agriculture products such as Dried Distillers Grains (DDG), red sorghum, nuts, fruits, soybean oil, wine/spirits.
- As per the Indian Government's social media posts clarifying the deal - dairy products, a comprehensive range of spices, specific grains (such as rice and wheat) and select frozen and preserved vegetables, are not included in the Interim Agreement for tariff reduction by India.
- US will apply 18% reciprocal tariff on key exports from India such as Indian textiles and apparel products, leather / footwear products, plastic and rubber, organic chemicals, home décor, artisanal products, and certain machinery.
- Subject to the successful conclusion of the Interim Agreement, the US will remove even this reduced reciprocal tariff on a wide range of goods identified in the Annexure to US Executive Order 14346 such as pharmaceutical products, gems and diamonds, aircraft parts.
- US and India to establish clear rules of origin to ensure that the benefits of the Interim Agreement accrue predominately to the US and India and also address non-tariff barriers that affect bilateral trade.
- India to address long-standing barriers to the trade in U.S. medical devices as well as eliminate restrictive import licensing procedures and quantitative restrictions on US Information and Communication Technology (ICT) goods.
- India to also consider reciprocity arrangements for US standards including testing requirements for allowing US exports to enter the Indian market. In a similar vein, India to also address long-standing non-tariff barriers to trade in US food and agricultural products.

## Indian export sectors that are expected to benefit significantly

The following labour-intensive exports will regain competitiveness with 18% or zero tariffs.

SECTOR	KEY GOODS	EXPECTED TARIFF IN US
Textiles/Apparel	Ready-made Garments, fabrics, home decor	18% or nil
Leather/Footwear	Shoes, garments	18%
Gems and jewellery/Diamonds	Cut/polished diamonds, jewellery	Nil
Chemicals/Plastics	Organic chemicals, rubber	18%
Pharmaceutical	Generics/ingredients	Nil
Automobile/Aircraft	Parts, auto components	Nil - preferential tariff quota to be agreed

It may be noted that IT products such as smartphones, laptops, etc. continue with zero-duty exemption from reciprocal tariffs.

## Indian sectors which may potentially get impacted from US exports

India's tariff reductions would expose certain domestic sectors to cheaper US goods, though sensitive segments within agriculture/dairy will be protected.

SECTOR	KEY US IMPORTS	POTENTIAL IMPACT
Agriculture/Food	DDGs, sorghum, nuts, fruits, soybean oil	Price competition for farmers for these products; also qua animal feed
Beverages	Wine, spirits	More competition for domestic producers; may also add to the trend of 'premiumisation' amongst Indian consumers.
Energy	LNG, coking coal	Energy security
Industrial	Medical devices, ICT goods	More competition for domestic producers once non-tariff barriers are eased

### Expected key terms of the full-fledged BTA to be signed eventually

The negotiations for finalising the BTA will expand the Interim Agreement into a comprehensive bilateral trade pact targeting \$500 billion trade by 2030, with deeper tariff cuts, market access, and supply chain resilience.

While no final terms have been set yet, the Joint Statement outlines the following roadmap building on the interim framework.

#### A. Core Negotiation Pillars

- Deeper tariff reductions in US beyond 18% on all products, not only Indian labour-intensive exports (textiles, gems, leather)
- Possible zero duty on pharma/aircraft parts, with US concessions on sensitive sectors like autos/electric vehicles.
- Potential elimination/reductions vis a vis US agri-industrial goods linked with introduction of tariff quotas and relaxations on imports of high-sensitivity items (electronics, defence and strategic goods).
- Commitment by India for purchases of up to \$500 billion over 5 years especially for US energy (Liquefied Natural Gas/coal), aircraft/critical technology (Graphics Processing Units, data centers), precious metals.

#### B. Removing/diluting non-tariff barriers

The BTA negotiations will prioritize removal or dilution of non-tariff barriers (NTBs) in areas tabulated below:

AREA	POINTS LIKELY TO BE NEGOTIATED
Market Access	Preferential quotas for automobiles/auto components; barriers to digital trade, removal of import licenses/quotas by India.
Technical Barriers (TBT)s and Standards	Uniform standards and reciprocal acceptance of US goods conforming to US Standards
Preferential Rules of Origin	Specific rules of origin to accord preferential status to originating goods in the respective countries
Supply Chains	Alignment on export controls, investment reviews, countering policies of non-market economies like China
Economic Security	Technological cooperation (GPUs/data centers); building resilient supply chains in critical minerals/ semiconductors.

AREA	POINTS LIKELY TO BE NEGOTIATED
Dispute Mechanism	WTO-aligned retaliation rights; modifications if tariffs change.

## Timelines for next steps and outlook

The Interim Agreement serves as bridge with a faster BTA finalisation being targeted. India seeks safeguards for agriculture and dairy while US pushes broader concessions. The full-fledged BTA is expected by late 2026 or 2027 as per current roadmap.

Here it is pertinent to highlight that the US has also issued an Executive Order proposing to impose 25% tariff on countries trading with Iran, where India may have some risk exposure. In light of the recent increase in sanctions on entities trading with Iran, this aspect needs to be carefully examined and may need special carve-outs under the BTA.

From the Joint Statement, the specific inclusion of products in the initial terms provides a critical window of opportunity for stakeholders and affords some certainty on the inclusions and level of concessions. This can be leveraged to convert into long-term and enhanced protections by the time the BTA comes to conclusion.

The Interim Agreement is set up not to take a format of a full-fledged BTA but as an early harvest framework deal - therefore, stakeholders will be well advised to pay attention to the details of the enforcement legislation and review the developments to ensure that benefits are accurately accorded.

The Interim Agreement includes targeted exemptions and concessions for specific Indian exports previously hit by US Section 232 national security tariffs on steel, aluminium, and copper. These provisions provide duty-free or preferential access to address compliance-heavy sectors. Similar provisions under the BTA may help safeguard against Section 232 investigations in the future.

India and the United States also have a wider agenda to attend to, from defence and technology security to Indo-Pacific stability and trusted cooperation in emerging domains. The Interim Agreement and the potential BTA signals stakeholders to keenly follow the proceedings in this evolving and dynamic relationship.

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