

# INDIA-US TRADE DEAL: ANALYSIS & IMPLICATIONS

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# Broad-based tariff relief for Indian exports

The India-US trade agreement acts as a significant economic stabilizer by capping reciprocal tariffs at 18%, averting punitive duties of up to 50% that threatened labour intensive sectors like textiles and leather. This rationalization restores export competitiveness, integrates MSMEs into global supply chains, and bolsters domestic aggregate demand through sustained employment. Structurally, the deal renews investor confidence, narrowing the Current account deficit by accelerating capital inflows (FDI/FPI).

Feature	Details of the agreement
US reciprocal tariff	Reduced from 25% to 18% and 25% Punitive tariffs eliminated
Energy commitment	USD 100 billion purchase of US Energy & Tech
Russian oil	India to halt purchases of Russian crude
Trade target	Aiming for USD 500 billion in bilateral trade by 2030



## Sectors benefitting from the trade deal & tariff rationalisation:

- Textiles and apparels
- Gems & jewellery
- Electrical goods
- Auto & Auto ancillaries
- Agro and Seafood
- Pharmaceuticals and Chemicals
- Renewables and Solar Energy Sectors

# Sector impact analysis

- **Broad-Based Tariff Cuts:** The agreement secures a tariff reduction to 18% (down from the threatened 25%-50%), safeguarding key export oriented industries.
- **Primary Beneficiaries:**
  - **Labour Intensive Sectors:** Textiles & apparel, Leather (Footwear & bags), gems & jewellery, and seafood.
  - **High Value Manufacturing:** Engineering goods (Auto ancillaries), pharmaceuticals, chemicals, and solar/renewable energy components.
  - **Services & Agro:** IT services and agricultural products.
- **Textile Industry Advantage:** The textile sector emerges as a top winner, with India now securing the lowest tariff rates among major textile exporting nations to the US. This is critical as the US market accounts for approximately 28% of India's textile exports.

## Sectoral impact analysis

Sector	Expected impact	Primary reason
IT Services	High positive	Stronger bilateral ties and economic stability
Pharmaceuticals	High positive	Lower tariffs and easier market access
Auto ancillaries	Moderate positive	Integration into US automotive supply chains
Energy	Transformative	Massive shift toward US LNG and Coal
Agriculture	Neutral/Positive	Protection of domestic dairy; more US imports

# Sector impact analysis

Sector	Previous risk / threatened tariff	New deal tariff	Impact on business
<b>Textiles &amp; Apparel</b>	50% (Severe threat to viability)	18%	High Benefit: Restores price competitiveness; prevents order flight to Vietnam/Bangladesh.
<b>Gems &amp; Jewellery</b>	25% - 50%	18%	Moderate Benefit: Protects margins in a labor-intensive sector sensitive to price hikes.
<b>Seafood / Marine</b>	25% (Countervailing duties risk)	18%	Stability: Ensures Indian shrimp/seafood remains affordable for US buyers.
<b>Engineering Goods</b>	25% (Section 232 fallout)	18%	Growth: Lowers input costs for US manufacturers using Indian steel/auto parts.
<b>Service Exports (IT)</b>	Visa/Regulatory Friction	Smoother Access	Indirect Benefit: Improved bilateral relations reduce risks of H1-B/offshoring crackdowns.

# Macroeconomic impact & trade dynamics

- **Mitigation of trade headwinds:** The deal effectively counteracts the macroeconomic shocks affected from potential 50% punitive tariffs, particularly shielding labour intensive sectors that drive rural and semi urban employment.
- **Boost to aggregate demand:** By stabilizing export volumes, the deal supports income boost in manufacturing hubs, which in turn fuels retail consumption and strengthens overall aggregate demand in the economy.
- **Cost efficiency:** The agreement is expected to lower operating costs for exporters by making imported raw materials and machinery cheaper, thereby improving input-cost dynamics.

## Export competitiveness & global integration

- **Price competitiveness:** The rationalization of tariffs enhances the price competitiveness of Indian goods globally, providing a significant morale boost to exporters and MSMEs.
- **Supply chain resilience:** The deal encourages the integration of Indian MSMEs into global supply chains (GSCs), fostering a more robust export ecosystem.
- **Global standing:** Coupled with the recent EU India trade developments, this agreement signals reduced global trade risk and elevates India's visibility as a reliable, long-term trading partner, increasing India's goodwill and global positioning.



# Investment & balance of payments

- **FDI & inflows:** The restored certainty is projected to accelerate Foreign Direct Investment (FDI) and portfolio inflows, which will help narrow the Current Account Deficit (CAD) and strengthen the Balance of Payments (BoP).
- **Capacity expansion:** The renewed economic cooperation encourages companies to undertake capacity expansion and fresh investments, directly supporting job creation and boosting employment generation especially in the informal sectors.

## Currency stabilization: The "Circuit Breaker" effect

- **Immediate rupee recovery:** The deal has acted as an immediate "circuit breaker" for the depreciating Rupee. The currency has already strengthened to 90.5 USD from a record low of 92, signalling an early positive market reaction. This improvisation in the rupee strategically improves the investor confidence making market less volatile.



# Long-term growth implications

- The India-US trade agreement represents a strategic realignment, extending beyond tariff reductions to deeper economic and geopolitical cooperation.
- India's commitment to procure US technology and energy enhances access to critical inputs for the next phase of industrial and manufacturing expansion.
- The agreement delivers a positive confidence signal to global investors, reinforcing commitment to a rules-based international economic framework.
- According to Arvind Panagariya (Chairman, 16th Finance Commission), the outcome reflects a rare win-win negotiated by two highly demanding counterparts.
- Expected to support the Indian rupee over the medium term through higher capital inflows and greater institutional investor participation.



The deal represents a structural shift in India-US economic relations and establishes a roadmap toward achieving the USD 500 billion bilateral trade objective over the longer term. Near-term tariff reductions are expected to provide a material boost to Indian export competitiveness, while subsequent negotiation rounds will likely concentrate on addressing non-tariff barriers and regulatory frictions. The long-term success of the agreement will depend on effective implementation and deeper integration of supply chains. Overall, the pact underscores the strengthening strategic and economic alignment between New Delhi and Washington in an increasingly complex global environment.



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