

Washington blinks, New Delhi benefits

Trade deal will restore confidence in the relationship with the US, but India must spread the risk in a volatile world

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The announcement of a trade deal with India by President Donald Trump of the United States (US) is a welcome step that will help restore some confidence in the highly consequential relationship that had become shaky over the last one year. But it also augurs for caution and realism as India plans its future approach to international economic partnerships.



The trade deal with the US is undoubtedly a positive step forward that advances India's national interests. But it is not a be-all and end-all. (AP)

In monetary terms, the lowering of American tariffs on Indian exports from the sky-high level of 50% to 18% will bring relief and buoyancy to manufacturers in US-oriented sectors of the Indian economy. It will also rev up business and market sentiments in general and give a fillip to not just trade in goods but also in services and foreign investment flows — all of which are interconnected in a thick and heavily enmeshed relationship like the one that India has built up with the US over decades.

It is notable that Indian exports to the US increased by over 20% year-on-year in recent months in spite of the massive tariff wall erected by the Trump administration. India's economy, as a whole, has also grown robustly and displayed resilience throughout the period of the trade row with the US. Now that at least the top floors of the American tariff walls have been demolished, giving Indian exporters an edge over competitors from Bangladesh (20% tariffs), Vietnam (20%), Indonesia (19%) and China (37%), one can visualise a surge that will further speed up India's already fast-moving economic engine.

The icing on the cake is that, on the services side of bilateral commerce, top American technology firms like Amazon, Microsoft and Google have pledged to invest more than \$67.5 billion in India in Artificial Intelligence, cloud computing and data centres. The lowering of US tariffs on goods will have a ripple or multiplier effect on all these big bets from Big Tech companies and ease psychological and regulatory hurdles.

Still, it is worth noting that what Trump has publicly demanded and expected from India in return for lowering tariffs is problematic. This implies that the deal may not be a full stop but a pause. His claims with typical dramatic capitalisation that India will reduce its tariff and non-tariff barriers, presumably on all American exports, to “ZERO” and that India “agreed to stop buying Russian Oil”, leave room for interpretation.

Trump’s assertion that India will buy “over \$500 BILLION DOLLARS” of American goods should be juxtaposed with the fact that total US goods exports to India were \$41.5 billion in 2024, and his desired thirteenfold increase cannot happen overnight. Also, the gradual reduction in Russian oil purchases India has made is based on market-based cost-benefit calculations rather than a surrender to American diktats. As commerce minister Piyush Goyal stated, India does not negotiate trade deals “with a gun to our head”. The devil lies in the details, and New Delhi must ensure that the gains outweigh the losses in the implementation of the trade deal with Washington.

India must also be watchful of Trump’s tendency to do sudden U-turns or renege on agreed terms in trade deals. His on-again, off-again threats to reimpose additional tariffs on Canada, the European Union (EU), Mexico and South Korea after making headline-grabbing announcements of settling disputes with them have proven that the surprise weapon in his much-touted “art of the deal” is to sustain pressure on partners by using trade wars as all-purpose and all-weather cudgels to extract economic and non-economic concessions.

The inherently slippery nature of Trump means that the US’s allies and partners are not hopeful of a return anytime soon to the good old days of benevolent and predictable liberal American hegemony. They are all rationally scrambling to somehow preserve their long-entrenched economic relationships with the US, while simultaneously looking to other greener pastures. Concerted attempts are being made by various players to redefine and expand networks of international economic cooperation outside the ambit of the US.

In the case of India, although New Delhi has displayed strategic patience and finally worked out the trade deal with Washington, over-reliance on the US could be a costly mistake. India’s Free Trade Agreements (FTAs) with the UK, Oman, and New Zealand in 2025, and its game-changing FTA with the EU in 2026, are all ways of de-risking from an unreliable and unreasonable US. India’s economic opening up to its principal adversary, China, to try and tackle its gaping trade deficit with it, is also happening in the backdrop of the Trump disruption.

The trade deal with the US is undoubtedly a positive step forward that advances India’s national interests. But it is not a be-all and end-all. If the US market

constituted around 17% of India's total global exports at the time when Trump unleashed the trade war in 2025, India should aim to keep it around that share only, rather than take on extra risks by placing too many eggs in the American basket and potentially facing future systemic challenges to its economic rise.

Abundant caution and pursuit of multiple partnerships have paid dividends in Indian foreign policy. Now that the Indian mantra of multi-alignment is getting universalised as a buffer against Trump's tantrums, New Delhi will enjoy greater headroom to manoeuvre and come together with like-minded countries. It is time to applaud the mix of firmness and flexibility with which India worked out the trade deal with the US. But even more importantly, it is time to spread the risk in a truly volatile, uncertain, complex and ambiguous (VUCA) world.

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