HSBC Asset Management

India Trade Update: Agreement with the US

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February 2026

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Key takeaways

- The United States has agreed to lower reciprocal tariffs on Indian exports from 25% to 18% and eliminate the 25% penal tariffs on India's crude oil imports from Russia
- In return, India may need to reduce certain tariff and non-tariff barriers, expand its imports of US goods beyond current levels, and potentially limit or cease crude oil imports from Russia, as suggested by President Trump and various media reports
- Currently, exports to the US contribute only 2% to India's revenue (1.5% when excluding exempted goods). However, specific industries and companies could benefit significantly from this agreement
- This development helps to resolve uncertainties and ease geopolitical tensions between the US and India, which is expected to boost market sentiment. Indian markets, which have recently experienced underperformance and foreign outflows, may see signs of recovery as a result (See more details on Page 2)
- India and the EU signed a Free Trade Agreement (FTA) in January 2026, ending 20 years of negotiations. The agreement is expected to be implemented by 2027 and will reduce tariffs on 92-97% of goods traded
- The deal could double trade between India and the EU, which is currently worth USD 140 billion, within five years
- It helps India diversify exports and become more integrated into EU supply chains, especially in industries like textiles and manufacturing
- Tariffs on 90% of Indian goods will be removed, benefiting sectors such as textiles, machinery, electronics, pharmaceuticals, gems, jewellery, and leather
- EU automakers will gain access to the Indian market, with potential for more "Make in India" initiatives and vehicle exports (See more details on Page 3)

Source: Bloomberg, HSBC Asset Management, February 2026

India-US trade deal: Moving forward

On February 2, news outlets reported that India and the United States have reached a trade agreement. As part of the deal, the US has agreed to reduce reciprocal tariffs on India's exports from 25% to 18% and remove the 25% penal tariffs on India's crude oil imports from Russia.

While the full details are yet to be disclosed, media reports indicate that India may need to eliminate certain tariff and non-tariff barriers and increase its imports of US goods beyond current levels. Additionally, India may also reduce or halt its crude oil imports from Russia, as suggested by a social media post from President Trump and other media sources.

Implications for India

Since only 2% of India's revenue comes from exports of goods to the US (1.5% after exempted goods), the immediate revenue impact is expected to be minimal. However, certain sectors and companies stand to benefit positively from the new agreement.

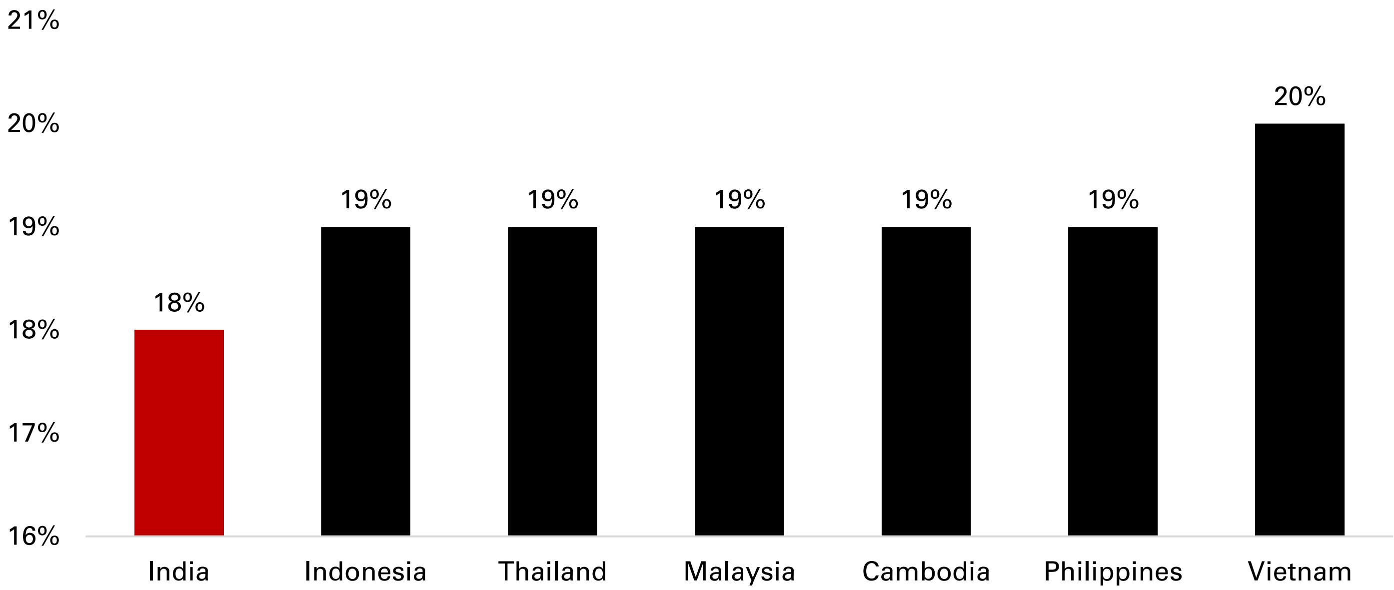
The deal is a major positive for the Indian market overall, addressing long-standing uncertainties and signaling a thaw in US-India geopolitical tensions. This is particularly significant given the recent underperformance of Indian markets and foreign institutional investor (FII) outflows.

The removal of trade-related overhangs could accelerate decision-making processes, supporting Foreign Direct Investment (FDI) and boosting outsourcing opportunities for India.

The anticipated India-US Bilateral Trade Agreement, if successfully finalized, could address tariffs, market access, and other trade barriers. This would further bolster investor confidence, strengthen the Indian rupee, and potentially reverse FII outflows from Indian markets.

Overall, this trade agreement serves as a positive development, both economically and geopolitically. It reinforces India's growth outlook and positions the country for further economic progress in collaboration with the US.

Fig. 1: India and other Asian countries' export tariff rates to the US



Source: Morgan Stanley, HSBC Asset Management, February 2026.

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India and EU Conclude FTA to Strengthen Economic Ties

In a landmark development, India and the European Union (EU) have successfully concluded negotiations on a Free Trade Agreement (FTA) in January 2026, marking a significant step in strengthening ties between the two markets. This milestone follows India's increasing focus on trade diplomacy, following the conclusion of three major trade agreements: the India-UK Economic and Trade Agreement (CETA) in July 2025, the India-New Zealand FTA in December 2025, and the India-Oman Comprehensive Economic Partnership Agreement (CEPA) in late 2025. As India continues to deepen its global economic engagement, the FTA with the EU is expected to open new avenues for trade and economic cooperation, although immediate direct impacts on India's equity portfolio are not foreseen.

Here's a closer look at the agreement and its implications:

After almost two decades of negotiation, India and the EU have signed an FTA, with implementation expected by 2027 after necessary approvals. The agreement aims to liberalise 92-97% of tariff lines and is projected to double bilateral trade between India and the EU within five years. Currently, India and the EU's bilateral trade amounts to USD 140 billion, which is just 0.6% of global trade. India accounts for only 0.8% of the EU's exports in goods, highlighting the potential for significant growth in trade volumes.

Implications for India:

The EU is one of India's largest trading partners, with Indian exports to the EU amounting to USD 76 billion in FY25, second only to exports to the US (USD 87 billion). This agreement has the potential to bring substantial benefits across various sectors.

India's trade with the EU largely mirrors its trade with the US, with the FTA providing opportunities for export diversification. The EU deal, combined with the UK agreement, is expected to integrate India into EU supply chains, particularly benefiting labour-intensive industries. At the launch of the agreement, the EU will eliminate tariffs on 90% of Indian goods, opening up large gains in sectors such as machinery, electronics, pharmaceutical components, textiles, and jewellery.

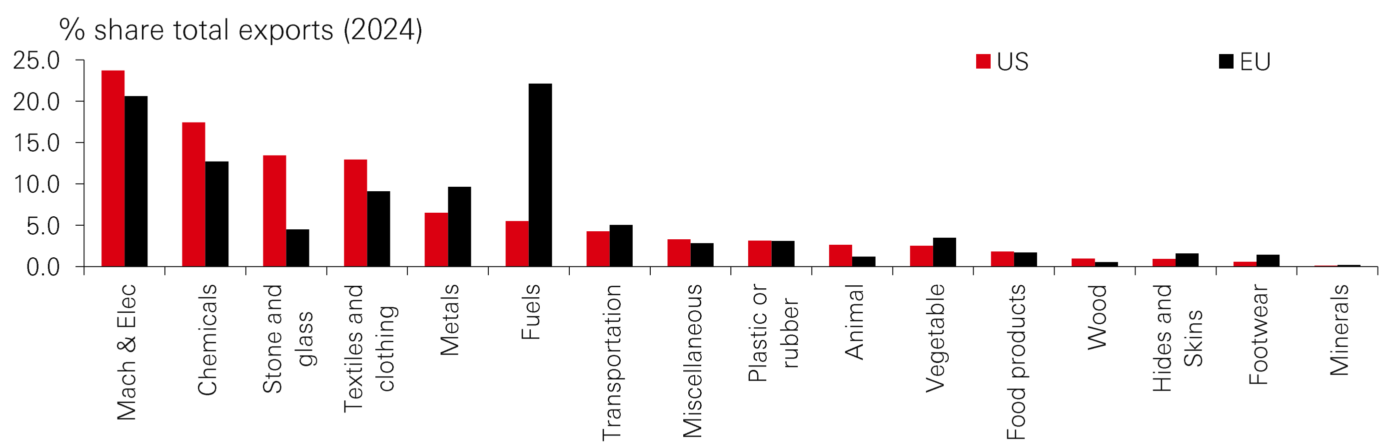
A quota-based auto liberalisation package will also allow EU automakers to introduce models in India at higher price bands, while creating opportunities for "Make in India" initiatives and exports of Indian-made vehicles.

Tariffs on EU wine exports to India are set to reduce from 150% to 75%, and eventually to 20%.

The agreement is expected to boost foreign direct investment (FDI) and services trade in the medium term. The EU currently accounts for 16% of India's FDI and 20% of India's IT exports. Certainty of market access, non-discriminatory treatment, and improved mobility provisions will enhance India's services exports in areas such as IT, professional services, and other business services. Moreover, commitments to mobility for Intra-Corporate Transferees (ICT) and Business Visitors will increase employment opportunities and mobility between India and the EU.

The India-EU FTA represents a pivotal moment in India's trade diplomacy journey, offering significant opportunities across goods and services sectors. While the agreement is unlikely to have an immediate impact on India's equity portfolio, its long-term benefits could be substantial, driving economic growth and fostering deeper integration with global markets.

Fig. 2: India's exports to the US and Europe



Source: ITC trademap, HSBC Global Research, January 2026
Note that Export Similarity Index is calculated by summing the minimum of India's export shares to the EU and to the US for each product

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