



From Breakthrough to Breakdown: The Near Collapse of U.S.–India Trade Talks and What Comes Next

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FROM BREAKTHROUGH TO BREAKDOWN: THE NEAR COLLAPSE OF U.S.–INDIA TRADE TALKS AND WHAT COMES NEXT

A U.S.–India trade deal was expected to be among the first ones announced following U.S. President Donald Trump’s “Liberation Day” barrage of tariffs. Instead, by late July, negotiations collapsed. In early August, the Trump administration hit India with an increased 50 percent tariff rate—ostensibly in retaliation for India’s import of Russian energy but likely because of India’s hardening stance on agricultural markets. The increased tariffs have entered into force, and New Delhi’s position remained defiant. There is still chance for an eventual agreement later this year, and common geopolitical interests—especially balancing against China’s rise—will not go away; still, the episode will have negative impact on the two countries’ strategic trust and goodwill. The episode underlines that India is willing to go to greater lengths than before with trade concessions, but its red lines around agriculture and other sensitive areas are firm. In their own trade talks with India, EU negotiators should take advantage of the window of opportunity to reach a deal before Washington and be careful not to push it to a breaking point.

Post-“Liberation Day” trade talks between the United States and India started out less politically charged than U.S. talks with China, Canada, or the European Union. While India was not spared from President Donald Trump’s [tariff barrage on April 2](#), it was widely believed that last decade’s increasingly robust India–U.S. strategic partnership built primarily on shared concerns about China’s rise, as well as the good personal nexus between Trump and Indian Prime Minister Narendra Modi, two nationalist strongmen with markedly transactional approaches to

international affairs, would help iron out traditional differences between the American and Indian trade policies.

Indeed, negotiations reportedly progressed well throughout much of the spring and early summer, with New Delhi offering several concessions in areas like manufactured goods, automobiles, and liqueurs, which in previous decades would have been nearly unimaginable. By July, however, positions started to harden, and President Trump [threatened](#) to hit India with a 25 percent general tariff, plus “some more” in retaliation for India’s import of Russian energy. In early August, the [final figures](#) were published, amounting to an overall tariff rate of 50 percent for India. Both parties still claim to hope for an eventual breakthrough, but this episode will have a negative impact on future India–U.S. relations and is an instructive case study of how [misjudging signs and redlines](#) can unintentionally derail previously promising trade talks.

A DIFFICULT HISTORY AND AMBITIOUS GOALS

The disappointing outcome would not have surprised experts or policy makers before the 2025 trade talks. The mutually frustrating history of trade negotiations between India and the United States—and other developed economies—stems from the former’s historical aversion to free trade and investment and its lasting desire to protect strategically crucial and socioeconomically vulnerable sectors like agriculture, retail, or the defense industry. India’s “on-and-off” trade talks with the European Union are [another case in point](#). Still, in the early days of the second Trump administration, ambitions for a comprehensive India–U.S. trade deal ran high.

During Prime Minister Modi’s February 2025 visit to Washington, the two parties agreed on finalizing the first phase of a trade agreement by the end of the year and to more than double the volume of bilateral trade to \$500 billion by 2030. In 2024, [India–U.S. trade](#) in goods stood

at \$129.2 billion, with \$41.8 billion in U.S. exports and \$87.4 billion in U.S. imports—[mainly](#) engineering goods, electronic goods, drugs and pharmaceuticals, gems and jewelry, and ready-made garments. This made for a trade deficit of \$45.6 billion for the United States and also makes the United States India's largest trade partner. While bilateral trade grew at relatively high rate in recent years, it is widely understood that doubling it would require a comprehensive trade deal going beyond marginal reductions of tariffs and significantly reducing trade barriers.

Indian commentators pondered whether the ambitious goal set by the parties signaled that India had dodged the global reciprocal tariffs President Trump had been regularly threatening by that time. Not only did Modi not receive [such a promise](#), but he was lectured by Trump in front of the cameras about India's "very strong tariffs." Still, when the U.S. president announced a 26 percent tariff rate for India on [April 2](#), with implementation first postponed to July 9 and then to August, negotiations kicked off on a rather positive note—especially compared with other, more traditional U.S. partners like [Canada](#), [Europe](#), or [Japan](#), let alone its main rival [China](#).

JUGGLING TRADE SPATS AND BREAKNECK TALKS

India–U.S. trade talks began in earnest in late March, and [sources suggest](#) that the pace was quite remarkable. By mid-July, some expected a deal to be reached [any day](#), with even President Trump floating the idea of a "very close" final agreement. India offered to [substantially cut](#) its notorious tariffs on manufactured goods, and Indian negotiators and commentators even floated the ambition of securing a deal around or even below a [15 percent general tariff rate](#). This would have given India a significant advantage over regional manufacturing and export competitors like Bangladesh or Vietnam. Promisingly, India rarely if ever found itself on the wrong end of Donald Trump's social media and press conference fuming over other countries' behavior, unlike the [Japan](#), [Canada](#), or the [EU](#).

Later in July, however, positions seem to have [hardened](#). India hoped that the concessions it already extended would suffice and that there would be no need to grant the Americans tariff-free access to agricultural or automotive markets. Farming accounts for around [44 percent of employment](#) in India and is particularly important in vulnerable rural communities, while automobiles are a flagship sector under the Modi government's [Make in India](#) and [Atmanirbhar Bharat](#) (Self-Reliant India) initiatives aimed at boosting domestic manufacturing. India also resisted the U.S. push to reach an early agreement at any cost. When U.S. Commerce Secretary Howard Lutnick confirmed August 1 as a [“hard deadline”](#) for imposing reciprocal tariffs, Indian Minister of Commerce and Industry Piyush Gopal said that India is “not working on deadlines.” While engaging in fairly constructive trade talks, the two countries have also been locked in a bitter trade spat [at the World Trade Organization](#) centered on sectoral tariffs imposed by the first Trump administration back in 2017 on steel and aluminum products. These tariffs, set at 25 percent and 10 percent respectively, affect Indian exports worth around \$7.6 billion. President Trump threatened India with even more tariffs in late July, floating a flat 10 percent additional tariff rate on every BRICS member.

Confusing communication around U.S. trade deals with other partners during the summer arguably did not help convince the Indian side to give in to even more American demands and risk one-sided dependence on the United States, either. While India was spared from Trump's mid-July series of letters informing countries about new tariff rates, it certainly has noted that these announcements often had little correspondence with the results of earlier trade discussions. Vietnam, for instance, got a [20 percent rate, one percent above that of Indonesia](#), despite having agreed to impose [no tariffs on U.S. goods](#). This promise now seems to have had [no discernible effect](#) on the rate imposed by the United States relative to other states in the region. Almost immediate disagreements over the interpretation of specific terms in U.S. trade deals

with the [EU](#) and [Japan](#) and [triumphalism](#) on the American side also raised serious questions in New Delhi about whether going above and beyond in their own trade talks would be of any benefit or would instead just set India up for similar public embarrassment. Some sources suggest that a direct phone call between the leaders could still have resulted in a final deal. In light of India's treatment by the Trump administration during and after the May 2025 India–Pakistan conflict, however, Prime Minister Modi was [wary](#) of exposing himself to public chastisement from Trump.

TALKS COLLAPSE: A CASE OF DIFFERING PRIORITIES AND MISJUDGMENT

It was against this backdrop that President Trump went on the record about his frustration and announced a [25 plus 25 percentage point tariff rate](#) in late July, although this tariff rate was later [suspended until August 27](#). India is quietly defiant: Modi says he and his country is [ready to pay a heavy price](#), which may include [heavy blows](#) to Indian dreams about manufacturing and export-led growth. When the new tariffs kicked in, Modi pressed the importance of self-reliance—or “Swadeshi,” a long-standing trope in Indian political economic lingo—and his government promised sweeping tax cuts. Indian policy makers and market observers hope that with the Indian economy primarily driven by private consumption, such measures will go some way in mitigating the adverse impact of Trump's tariffs. India's growth rates are slowing down from 7–8 percent to just above 6 percent. New Delhi also refuses to scale down its imports of Russian energy, although the considerable gains it has made by importing sanction-hit Russian oil and re-exporting it in a refined form may now be wiped out.

It seems like New Delhi is taking lesson from none other than Trump, trying to neuter American tactics by [avoiding the appearance of desperation](#). It is also cautiously edging closer to China both on [trade](#)

and [on borders and security](#) in the hope that relations with its northern neighbor can be managed through peaceful means at least until there is more clarity on the value of American strategic commitments. At the same time, India is very much interested in maintaining those commitments as much as possible. Even in the wake of crippling tariffs, it has [not abandoned the negotiating table](#), though according to the latest reports the next round of talks has [been postponed](#).

The near collapse of 2025 India–U.S. trade talks is an instructive case study in how the former’s new approach to trade, prioritizing immediate economic benefits at the risk of longer-term strategic relations, and India’s [overestimation of its leverage](#) and standing in President Trump’s eyes, led to a suboptimal outcome for both parties. In the end, the two countries’ strategic partnership almost certainly [will endure](#): India will still have to rely on the United States for markets and technology to boost its own growth prospects, and in turn its cooperation with the U.S.-led balancing coalition against China will remain valuable for American policy makers.

After years of gloating about being in a “[geopolitical sweet spot](#),” India is [no longer in such an enviable position](#), and it most certainly is the junior partner vis-à-vis the United States, which is a reality that Indian policymakers have just learned the hard way. New Delhi is arguably the party with more domestic political and policymaking capacity to adjust and correct. While being pushed around by Washington has already [cost Modi dearly](#) on the domestic political scene, it is still far likelier that Indian policy makers will come up with a creative way to spin additional concessions than that Trump’s team will suddenly value positive-sum trade deals. And while future U.S. administrations may well soften their tone, elements of Trumpian assertiveness are likely to linger in a more multipolar and transactional world—a feature India needs to contend with if it is to reap the benefits of strategic cooperation with the United States. In the end, it is in both sides’ interest to salvage India-U.S. trade talks. It rests with India to not lose sight of long-term benefits despite short-term domestic and

external pressures and to avoid moving towards grievance politics.

The episode offers an opportunity for the European Union to speed up its own trade talks with India, while also paying attention to India's flexibilities and redlines. It is rare that one gets such a clear picture of a negotiating partner's cards. Learning from the lesson of U.S.–India negotiations, EU negotiators should appreciate how much further India is willing to go in offering concessions and access to its own market without pushing to the point that the process collapses. Capitalizing on this opportunity will take a smart combination of assertiveness and restraint.



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