

Tariffs, Russian Oil and India's Economic Security:

Understanding the New Trade Pressure

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ABSTRACT

The India and United States relationship has entered a period of growing economic and diplomatic friction amid the escalation of tariff disputes and disagreements over India's continued purchase of Russian crude oil. The tariff issue has evolved beyond conventional trade disagreements to encompass broader questions of energy security, strategic autonomy, market access and geopolitical alignment. While the United States has sought to address its trade concerns and exert economic pressure on countries continuing to purchase Russian energy, India has emphasised its sovereign right to pursue diversified and affordable energy supplies. The resulting tensions have implications for Indian exports, particularly in sectors dependent on the U.S. market, while also creating uncertainty for bilateral trade and investment. At the same time, India and the United States continue to cooperate in areas such as defence, critical and emerging technologies, supply-chain resilience and Indo-Pacific security. This issue brief examines the evolution of the tariff dispute, the Russian oil dimension, its implications for India–U.S. economic relations, and the broader strategic relationship.

INTRODUCTION

India and United States relations have traditionally combined expanding economic interdependence with cooperation in areas such as defence, technology, energy and the Indo-Pacific. However, trade and tariff disputes have emerged as an important source of friction in the relationship, particularly in the context of U.S. concerns regarding India's trade deficit, market-access barriers and its continued purchase of Russian crude oil. In February 2026, Washington and New Delhi announced a framework for an Interim Trade Agreement under which the United States would apply an 18 percent reciprocal tariff on specified originating Indian goods, while India agreed to reduce or eliminate tariffs on a range of U.S. industrial, agricultural and food products (The White House, 2026). The framework was also linked to wider bilateral economic-security cooperation and a proposed expansion of trade and

technology ties (PIB, 2026). In February 2026, the United States removed an additional 25 percent duty that had been imposed on Indian imports in connection with Russian oil purchases, while stating that it would monitor whether India resumed such imports (The White House, 2026). India, however, has continued to emphasise the importance of maintaining reliable and affordable energy supplies from diverse sources. This has created a tension between U.S. efforts to increase economic pressure on Russia and India's pursuit of energy security and strategic autonomy (Shalal, 2026).

The issue became more significant in September 2026 when the United States moved toward granting the President powers to impose tariffs of up to 100 percent on countries purchasing Russian oil and gas (Shalal, 2026). India expressed concern that such measures could have implications for bilateral relations and international energy markets, while reiterating its commitment to safeguarding its energy security and economic interests. The legislation subsequently became law, giving the U.S. administration the authority to impose such tariffs (Roy and Chakraborty, 2026). The tariff dispute is therefore significant beyond the immediate question of customs duties. The United States remains a crucial market for Indian exports including pharmaceuticals, electronics, engineering goods, gems and jewellery, textiles and garments, chemicals, petroleum products, and agricultural and marine products. Between April and August 2026, India recorded total merchandise exports of \$42.79 billion to the U.S. (Acharya and Verma, 2026). Consequently, prolonged tariff uncertainty could affect Indian exporters, investment decisions and bilateral trade negotiations. At the same time, India and the United States continue to cooperate in strategic areas such as defence and security, the Quad and Indo-Pacific, critical and emerging technologies, space, clean energy, counterterrorism and resilient supply chains. This demonstrates that the bilateral relationship combines economic friction over issues such as tariffs with substantial strategic convergence (MEA, 2025).

BACKGROUND

The Trump administration and the Modi government launched negotiations for a broader U.S.–India Bilateral Trade Agreement (BTA) on 13 February 2025. However, the trade relationship became more contentious following the United States' introduction of its broader reciprocal tariff policy in April 2025. Washington argued that differences in tariff rates and other trade barriers contributed to an imbalance in international trade, resulting in the imposition of tariff measures on Indian imports. The dispute subsequently expanded beyond customs duties to

include issues of market access, agricultural trade, digital trade, non-tariff barriers and supply-chain integration. The tariff dispute acquired an additional geopolitical dimension in August 2025, when the Trump administration imposed an additional 25 percent tariff on imports from India, explicitly linking the measure to India's direct or indirect purchases of Russian crude oil. The U.S. administration presented the measure as part of its broader effort to increase economic pressure on Russia in the context of the war in Ukraine (The White House, 2026).

A significant shift occurred in February 2026, when the two sides reached a framework for an Interim Trade Agreement (PIB, 2026). On 7 February 2026, the United States removed the additional 25 percent tariff associated with India's Russian oil purchases and reduced the reciprocal tariff on covered Indian goods from 25 percent to 18 percent. In return, India agreed to reduce or eliminate tariffs on a range of U.S. industrial, agricultural and food products, while both countries committed to addressing non-tariff barriers and expanding market access. India also expressed an intention to purchase \$500 billion worth of U.S. energy products, aircraft and aircraft parts, precious metals, technology products and coking coal over five years (PIB, 2026). The February 2026 framework therefore marked a shift from tariff escalation towards negotiated management of bilateral trade differences. At the same time, the agreement demonstrated that trade negotiations had become closely connected with wider issues, including energy security, Russia-related economic measures, agricultural market access and supply-chain interests.

KEY ISSUES

The present tariff dispute is not limited to customs duties. It involves trade imbalance, market access, agriculture, Russian oil, energy security and the wider strategic relationship.

1. Trade imbalance and reciprocity

A central U.S. concern is the persistent goods trade deficit with India. In 2025, U.S. goods exports to India were \$45.4 billion, while U.S. goods imports from India were \$103.8 billion, producing a U.S. goods trade deficit of \$58.4 billion (USTR, 2025). Washington has therefore pushed for greater reciprocity in tariff and market-access arrangements. India seeks to preserve export competitiveness, while the U.S. seeks to reduce its trade deficit and obtain greater access to the Indian market.

2. Agriculture and Market access

Agriculture is one of the most sensitive components of the negotiations. The U.S. has sought greater access for products such as agricultural commodities, while India has traditionally maintained relatively high protection for several farm products (Acharya and Verma, 2026). The February 2026 framework covered products including tree nuts, fruits, soybean oil and other agricultural products (PIB, 2026). The issue is particularly significant for India because tariff reductions can have implications for domestic farmers, agricultural prices and food-security considerations.

3. Russian oil and the geopoliticalisation of tariffs

The most important recent development is the connection between tariffs and India's purchase of Russian crude oil. The U.S. has sought to use economic pressure to reduce revenues available to Russia, while India has maintained that its energy policy is based on ensuring reliable and affordable supplies. In September 2026, new U.S. legislation gave the President authority to impose tariffs of up to 100 percent on countries purchasing significant quantities of Russian oil and gas. India is among the countries potentially affected (Shalal, 2026). Thus, the tariff dispute has moved from a purely economic issue to an economic and geopolitical issue.

4. India's energy security

India is heavily dependent on imported crude oil. Consequently, any major disruption to Russian oil supplies could require greater purchases from alternative suppliers. India's Russian oil imports are estimated to decline to 1.9 million barrels per day in September. (Verma, 2026). At the same time, Indian refiners have been increasing purchases from alternative sources, including Iraq and Middle Eastern suppliers.

INDIA'S STAKES

India has significant economic and strategic stakes in the ongoing tariff dispute with the United States. The most immediate stake is continued access to the U.S. market, which is one of India's most important export destinations. In 2025, U.S. and India goods and services trade was estimated at \$239.6 billion, while U.S. goods imports from India stood at \$103.8 billion (USTR, 2025). Any sustained increase in tariffs could therefore affect the competitiveness of Indian exports and create uncertainty for sectors such as textiles, engineering goods, pharmaceuticals, chemicals, electronics and gems and jewellery. Another important stake is the future of the India–U.S. Bilateral Trade Agreement. Both countries have been negotiating

greater market access and reductions in tariff and non-tariff barriers. The February 2026 framework sought to reduce barriers and establish a more predictable basis for bilateral trade (PIB, 2026). For India, the objective is to secure stable access to the U.S. market while protecting sensitive sectors, particularly agriculture and industries that could face competitive pressure from greater imports. The negotiations therefore have implications not only for current tariff rates but also for India's longer-term trade and investment environment.

CHALLENGES

Foremost challenge is the linkage between trade policy and geopolitical considerations. In August 2025, the United States imposed an additional 25 percent tariff on Indian imports, explicitly citing India's continued importation of Russian oil. Although this additional tariff was removed effective 7 February 2026, the U.S. executive order provides for monitoring and possible recommendations for renewed action if India resumes direct or indirect purchases of Russian oil. This creates an additional layer of uncertainty for India, as developments in its energy policy can have consequences for its trade access to the U.S. market (The White House, 2026).

Another challenge is managing the domestic impact of greater market access. Under the February 2026 interim framework, India agreed to reduce or eliminate tariffs on U.S. industrial goods and a wide range of agricultural and food products. At the same time, the framework recognises the need to address long-standing market-access concerns and non-tariff barriers. For India, the challenge is to implement greater market opening while ensuring that sensitive domestic sectors can adjust to increased competition (PIB, 2026).

A further challenge is ensuring predictability in the emerging trade regime. The February 2026 framework extends beyond tariffs to standards, non-tariff barriers, digital trade, supply-chain resilience and investment-related issues. It also states that changes in the agreed tariffs by either country may allow the other country to modify its commitments. The continuing negotiations therefore leave several aspects of the long-term trade relationship subject to further agreement, creating a need for clearer and more predictable rules for businesses and exporters (PIB, 2026).

RECOMMENDATIONS.

First, India should pursue greater diversification of its energy supplies. This does not necessarily require an abrupt reduction in Russian crude imports; rather, India can progressively broaden its supplier base by expanding procurement from the Middle East, the United States and other producing countries. Such diversification would provide greater flexibility in energy procurement and reduce exposure to disruptions arising from geopolitical tensions or external policy measures (Verma, 2026).

Second, India should accelerate the diversification of its export markets. Greater integration with the European Union, the United Kingdom, Canada, New Zealand, ASEAN, Africa and other emerging markets can reduce excessive dependence on any single destination and strengthen the resilience of India's export sector. The India–New Zealand FTA, signed in April 2026 and scheduled to enter into force on 20 October 2026, provides a recent example of India's efforts to expand market access and diversify trade partnerships. The agreement will provide duty-free access for 100 percent of India's exports to New Zealand from the first day of implementation (Kumar and Acharya, 2026).

Third, India should seek to decouple economic disagreements from areas of strategic cooperation wherever feasible. Differences over tariffs, market access and Russian oil should not unnecessarily constrain cooperation in defence technologies, semiconductors, critical technologies, space and supply-chain resilience. The February 2026 interim trade framework itself links trade negotiations with wider economic-security cooperation, including supply-chain resilience, investment screening and export controls.

CONCLUSION

The India and U.S. tariff dispute represents a significant test for India's economic diplomacy because it combines trade, energy security and geopolitics. India has substantial economic interests in maintaining access to the U.S. market, while its continued engagement with Russian energy reflects its broader concern with energy security and strategic autonomy. At the same time, the United States remains an important strategic partner in defence, technology and the Indo-Pacific. The challenge for India is therefore to manage these competing interests without allowing trade tensions to undermine the broader bilateral relationship. The way forward lies in diversification and strategic autonomy.

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