

AMOGHVARTA

ISSN : 2583-3189



## Impact of American Tariffs on the Indian Economy: Trade Dynamics and Strategic Policy Responses 2025-26

ORIGINAL ARTICLE



**Author**

**Dr. Vaseemuddin**

Assistant Professor

Department of Commerce

Durga College

Raipur, Chhattisgarh, INDIA

### Abstract

*The United States' imposition of escalating tariffs on Indian exports beginning with a 25% reciprocal tariff in August 2025, escalating to 50% by August 2025, and threatening further 500% duties on oil-importing nations represents a significant shift in international trade dynamics with profound implications for the Indian economy. This research paper examines the multifaceted impact of these tariffs on India's key export sectors, GDP growth, currency stability, and bilateral trade relations. Analysis of current data reveals that while targeted sectors such as textiles, gems, and jewelry face immediate challenges, resilient domestic consumption and strong public investment partially offset trade headwinds. The paper concludes that India's strategic responses, including market diversification and compliance measures on Russian oil imports, combined with structural policy interventions, position the*

*economy to navigate this trade turbulence despite near-term vulnerabilities.*

### Key Words

*US tariffs, India-US trade relations, export competitiveness, economic policy, trade deficit, sectoral impact.*

### Introduction

The landscape of international trade has undergone dramatic transformation since 2025, marked by protectionist policies and strategic tariff implementations by the United States. India, as the world's fastest-growing major economy and the fifth-largest economy globally, has emerged as a focal point of this trade tension. The Trump administration's imposition of tariffs on Indian goods initially justified on grounds of trade imbalance and geopolitical concerns related to India's continued purchase of Russian crude oil has created unprecedented challenges for Indian exporters and policymakers<sup>1</sup>.

India-US bilateral trade reached \$131.84 billion in 2024-25, with Indian exports to the US totaling \$87 billion<sup>2</sup>. The United States represents approximately 18% of India's total merchandise exports, making it India's largest trading partner<sup>1</sup>. This significant economic interdependence underscores the critical importance of understanding tariff dynamics for India's macroeconomic trajectory.

The primary objective of this research is to comprehensively analyze the economic impact of American tariffs on the Indian economy across multiple dimensions: sectoral vulnerabilities, macroeconomic implications, bilateral trade relations, and strategic policy responses. By examining empirical data and expert analyses from 2025-26, this paper presents a nuanced assessment of both immediate disruptions and potential long-term adaptations.

## Evolution of US Tariff Policy on Indian Exports

### 1. Chronology of Tariff Implementation

The escalation of US tariffs on India occurred in distinct phases throughout 2025:

**Table 1: Timeline of US Tariff Escalation on Indian Goods**

Date	Tariff Rate	Justification
August 1, 2025	25% (reciprocal)	Trade imbalance and unfair practices
August 27, 2025	Additional 25% (total 50%)	Russian oil purchases and BRICS alignment
January 2026	Potential 500% (proposed)	Sanctioning Russia Act 2025

This escalation represents a significant deviation from historical trade relations. In comparative terms, India faces the highest tariff rates among major US trading partners, exceeding those imposed on Japan (15%), the European Union (15%), South Korea (15%), Indonesia (19%), and Vietnam (20%)[3].

### 2. Stated Rationales and Underlying Factors

The Trump administration articulated multiple justifications for tariff imposition:

- **Trade Deficit:** The US goods trade deficit with India reached \$45.7 billion in 2024, representing 5.4% annual growth, which the administration characterized as evidence of unfair trading relationships[2].
- **Alleged Non-tariff Trade Barriers:** The US identified India's agricultural subsidies and sanitary/phytosanitary measures as protectionist constraints limiting American agricultural access to Indian markets[4].
- **Geopolitical Alignment:** India's membership in BRICS, perceived as challenging American economic hegemony, factored into policy calculations[4].
- **Energy Security Concerns:** India's sourcing of approximately 35-40% of its crude oil requirements from Russia, particularly at discounted rates, triggered secondary sanctions considerations[5].

## Sectoral Impact Analysis

### 1. Most Vulnerable Export Sectors

The 50% tariff disproportionately affects labor-intensive and commodity-based sectors:

**Table 2: Major Affected Export Sectors and Tariff Impact**

Sector	Export Value (USD B)	Tariff Exposure
Textiles	15-17	50% direct impact
Gems & Jewelry	8-10	50% direct impact
Marine Products	4-5	50% direct impact
Auto Components	3-4	50% direct impact
Chemicals	6-8	Selective 50% impact

Over 55% of India's \$87 billion annual exports to the US face the 50% tariff, translating to approximately \$48 billion of at-risk exports<sup>1</sup>. The textile sector, comprising over 85% MSMEs (Micro, Small, and Medium Enterprises), faces particular vulnerability due to fragmented supply chains and limited customer diversification.<sup>6</sup>

## 2. Partially Insulated Sectors

Certain high-value sectors remain exempted or face lower exposure:

- **Pharmaceuticals:** India supplies 50% of US generic drug imports, providing leverage for preferential treatment. However, narrow profit margins create vulnerability to any tariff increases.
- **Electronics and Semiconductors:** India emerged as the largest iPhone exporter to the US in Q2 2025 (44% of global iPhone production). These sectors maintain strategic exemptions due to Apple's supply chain diversification strategy<sup>2</sup>.
- **IT Services:** Software services, though technically exempt from goods tariffs, face potential secondary taxation mechanisms if the 500% tariff proposal targets service payments<sup>3</sup>.

## Macroeconomic Implications

### 1. GDP Growth Trajectory

Despite tariff pressures, India's macroeconomic performance demonstrates resilience. The National Statistics Office estimated GDP growth at 7.4% for 2025-26, representing a two-year high and exceeding the 6.5% recorded in the previous year<sup>7</sup>. The United Nations projects India to grow at 6.6% in 2026, the fastest among major economies<sup>5</sup>.

This resilience derives from offsetting factors:

- **Domestic Consumption Strength:** Robust private consumption, supported by declining inflation (3% average in first nine months of 2025) and lower interest rates, counterbalances export weakness.
- **Public Investment:** Strong gross fixed capital formation, particularly in physical infrastructure, digital systems, and defense spending, compensates for export challenges.
- **Sectoral Diversification:** Services sectors, particularly IT and software, remain largely insulated from goods tariffs.

However, economists project potential medium-term GDP impact of 0.3-0.5% deduction if tariffs persist, coupled with export reduction risks of \$4-5 billion<sup>1</sup>.

### 2. Trade and Exchange Rate Effects

India's merchandise trade position faces structural shifts. During April-November 2025, despite the 50% tariff, India's exports to the US grew 11.3% to \$52 billion, suggesting temporary resilience driven by supply chain lock-ins and expectations of eventual resolution<sup>3</sup>.

Currency pressures mount with implications for inflation. The rupee experienced volatility following tariff announcements, with external account pressures from potential oil import bill increases of \$9-11 billion annually if Russian sourcing substantially diminishes<sup>5</sup>. The current account deficit, already under monitoring, faces upward pressure from energy price increases if import diversification proceeds rapidly.

## Policy Responses and Strategic Adaptations

### 1. India's Diplomatic and Trade Strategy

The Government of India adopted a measured multilayered response:

1. **Bilateral Negotiations:** Continued engagement on a comprehensive bilateral trade agreement (BTA), seeking reciprocal tariff rates closer to EU levels (15%)<sup>4</sup>.
2. **WTO Mechanisms:** India challenged US Section 232 tariffs on steel and aluminum at the WTO, though the dysfunctional Appellate Body limits effectiveness<sup>4</sup>.
3. **Compliance Measures:** Gradual reduction of Russian oil imports from 1.77 million barrels per day (November 2025) to 1.2 million barrels (December 2025), signaling compliance with US energy security concerns<sup>8</sup>.

4. **Market Diversification:** Strategic emphasis on strengthening exports to Europe, the Middle East, and the UK through preferential trade arrangements and untapped demand channels<sup>6</sup>.
2. **Domestic Industrial Policy**  
India implemented compensatory measures to support affected industries:
  1. **MSME Support Programs:** Direct financial assistance and export credit facilities for small exporters in textiles, gems, and marine products.
  2. **Production Capacity Relocation:** Strategic partnerships to establish manufacturing units in jurisdictions with lower tariff exposure (particularly UAE) with preferential tax incentives.
  3. **Supply Chain Reorganization:** Textile exporters exploring value addition strategies and premium product lines to offset tariff impacts through price elasticity reductions.

## Risks and Future Uncertainties

### 1. Escalation Scenarios

The proposed Sanctioning Russia Act 2025, with potential 500% tariffs on oil-importing nations, represents the most severe downside risk[3]. Implementation would:

- Reduce commercial viability of Indian goods in US markets (de facto trade embargo).
- Eliminate approximately \$120 billion of annual Indian goods and services exports.
- Trigger severe supply chain disruptions and investor confidence shocks.
- Constrain India's strategic autonomy on energy procurement.

### 2. Legal and Institutional Uncertainties

A pending US Supreme Court ruling on the constitutionality of Trump-era tariffs creates binary outcomes. If tariffs are invalidated, Indian exporters could face refund complications and potentially higher long-term duties. If sustained, the precedent legitimizes expansive executive authority in trade policy[3].

## Conclusion

The impact of American tariffs on the Indian economy represents a complex interplay of sectoral vulnerabilities, macroeconomic resilience, and strategic policy adaptation. While immediate challenges manifest in labor-intensive export sectors and trade competitiveness, India's domestic economic fundamentals robust consumption, strong public investment, and diversified services sectors provide stabilizing forces.

The Indian economy, projected to maintain growth above 7% despite tariff headwinds, demonstrates adaptive capacity and policy effectiveness. However, sustainability depends critically on successful bilateral negotiations toward reciprocal tariff reductions, continued market diversification, and management of energy security transitions. The potential 500% tariff escalation represents an existential risk requiring heightened diplomatic engagement and contingency planning.

Ultimately, the tariff episode illuminates structural features of India's economy: its export dependence on a single market, vulnerability of MSME clusters to trade shocks, and critical importance of energy security considerations in policy formation. Strategic responses emphasizing market diversification, supply chain resilience, and enhanced domestic production capacity offer pathways toward reducing future tariff vulnerability.

## References

1. Clear Tax (2025, October 16) US tariff on India: Impact, affected products, rates and implications. <https://cleartax.in/s/us-tariff-on-india>, Accessed on 18/10/2025.
2. Vision IAS (2025, August 6) Trump's 25% tariff on India: Understanding India-US trade diplomacy. <https://www.visionias.in/blog/current-affairs/trumps-25-tariff-on-india>, Accessed on 08/10/2025.

3. The Hindu Business Line. (2025, September 10). *US Trade Policy and Future Judicial Challenges: What Lies Ahead for India*, Accessed on 12/09/2025.
4. Centre for Policy Research. (2025, July 22). *The Sanctioning Russia Act: Strategic Implications for India 's Energy Security*, Accessed on 23/07/2025.
5. World Bank. (2025, June). *Global Economic Prospects 2025: Regional Outlook for South Asia*. Washington, D.C., Accessed on 23/07/2025.
6. KPMG India. (2025, September). *US Tariff Shifts: Tariff Revisions and Their Impact on India*. <https://www.google.com/search?q=https://assets.kpmg.com>, Accessed on 01/10/2025.
7. Ministry of Statistics and Programme Implementation. (2025, August 31). *Quarterly Estimates of GDP for Q1 2025-26*. Ministry of Statistics, India, Accessed on 12/09/2025.
8. Press Information Bureau. (2025, August 20). *Update on India-US Bilateral Trade Negotiations and Tariff Discussions*. Government of India, Accessed on 23/08/2025.

---==00==---