



U.S. Tariffs and Indian Exports: An Empirical Assessment

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Abstract: *The recent tariff policies introduced by U.S. President Donald Trump marked a new phase of economic protectionism. Rooted in the “Make America Great Again” doctrine, this trade agenda aimed to promote domestic manufacturing and reduce trade deficits through the imposition of high tariffs on imported goods. In the case of India, the U.S. imposed higher tariffs on Indian imports in response to India’s discounted purchases of Russian oil. This decision disrupted bilateral trade flows and weakened global supply chains. Since the United States accounts for nearly one-fifth of India’s total exports, these tariffs have significantly reduced India’s export competitiveness and led to job losses in key sectors such as textiles, gems and jewellery, chemicals, and auto components. These developments are expected to slow India’s GDP growth by approximately 0.3–0.5 percent (Moody’s, 2025). This paper examines the impact of the India–U.S. trade dispute on Indian exports and discusses the policy measures adopted by the Indian government to mitigate the adverse effects of tariffs. The study reviews existing literature on tariff policies and trade shocks, employs descriptive analysis of export data, and discusses relevant policy responses. It also analyzes the issue from a theoretical perspective. Data have been collected from secondary sources, including the Ministry of Commerce, the Reserve Bank of India (RBI), and the Economic Survey. The findings indicate that U.S. tariff impositions have negatively affected India’s export performance, with year-on-year declines observed across major export categories such as engineering goods, gems and jewellery, chemicals, readymade garments, and petroleum products. To counter these challenges, the Government of India has undertaken several measures, including simplification and restructuring of the Goods and Services Tax (GST), expansion of global trade partnerships, and banking sector reforms by the RBI. However, in the long run, India must focus on innovation, export diversification, and a balanced trade strategy to safeguard its economy against similar policy shocks in the future.*

Key Words: USA, India, Export, Tariff, Trade, GDP.

1. INTRODUCTION:

Trade wars and tariff policies are measures or economic tools that nations use to safeguard domestic industries and affect international trade dynamics. In the last decade trade wars and stringent tariff policies come to the fore as nations engage in strategic economic confrontations (Angwaomaodoko, 2024). Tariffs and other trade restrictions imposed by nations in retaliation against one another are referred to as trade wars (Amiti et al., 2019). Trade wars are often viewed as a manifestation of protectionist tendencies—an economic conflict characterized by the imposition of tariffs and import restrictions between countries. These measures disrupt global trade flows and create uncertainty in international markets, influencing both production and consumption patterns worldwide (Putri, 2024). Tariffs levied by one nation against another may raise manufacturing prices, which has a big impact on international commerce. Also, decreased trade volumes, decreased corporate profitability, and higher prices of goods for consumers are as a result of imposition of tariffs. Businesses often become more hesitant to make investments in the nations impacted by trade conflicts when tariffs are implemented (Amiti et al., 2019). India and the United States have seen significant growth in their bilateral trade since 1991, and the U S is now India’s largest trading partner. However, this has also led to rising trade tensions. Earlier US administrations often criticized India for engaging in unfair trade practices, using high tariffs, and creating barriers—particularly in the agricultural and dairy sectors—to shield its domestic industries. They urged India to undertake economic reforms and open up its markets. However, under President Trump, the US adopted a tougher stance, viewing India as a trade rival. His administration imposed reciprocal and punitive tariffs, especially on steel and aluminum exports, and eventually removed India from the Generalized System of Preferences (GSP) program. In response, India also raised tariffs on several American products, including steel and agricultural goods. These



escalating measures between the two countries ultimately intensified the trade dispute (Verma, 2023). The US was India's largest trading partner for the fourth consecutive year in 2024-25, with bilateral trade valued at USD 131.84 billion (GoI,2025). The US tariff on India now totals 50% on most Indian exports, combining a 10% baseline duty, a 25% reciprocal tariff (announced on April 2, 2025) and an additional 25% tariff effective on August 27, 2025. Unlike China (30%) or Vietnam and the Philippines (20%), India and Brazil face the highest tariff rate among major US trade partners (Aditya, 2025).

In light of the above-mentioned facts, the paper examines the impact of the India–U.S. trade dispute on Indian exports and discusses the policy measures adopted by the Indian government to mitigate the adverse effects of tariffs. The paper also provides the theoretical perspectives of this issue.

2. AN OVERVIEW OF THE INDIA-US TRADE RELATIONS:

India–U.S. trade relations began evolving after India's independence in 1947. Under the leadership of Prime Minister Jawaharlal Nehru, India adopted a non-aligned, protectionist, and self-reliant economic model that limited large-scale engagement with the U.S. Although India received food aid under the PL-480 programme in the 1950s and 60s, high tariffs and restrictions on foreign investment hindered deeper trade ties. Relations further strained after India's 1974 nuclear test, which triggered U.S. sanctions. During the Cold War, India's close ties with the Soviet Union and its non-aligned stance relegated U.S. trade relations to a secondary position, while India's economic situation continued to stagnate due to restrictive policies (Sanate,2025).

A major shift occurred in 1991 with the collapse of the Soviet Union and India's balance-of-payments crisis. Under the leadership of Prime Minister P.V. Narasimha Rao and Finance Minister Manmohan Singh, India liberalized its economy, dismantled protectionist frameworks, and opened markets to global trade and foreign investment. This transformation aligned with America's growing interest in emerging markets, democracy, and globalization. During the 1990s and 2000s, trade expanded significantly. The U.S. exported machinery, aircraft, chemicals, and pharmaceuticals to India, while India increased exports of textiles and precious metals. Despite persistent irritants such as tariffs and intellectual property issues, relations improved, highlighted by the 2005 U.S.-India Civil Nuclear Deal, which strengthened mutual confidence and cooperation.

India–U.S. bilateral trade relations have remained steady despite periodic tensions over tariffs. Their partnership is strengthened by shared strategic concerns, particularly regarding China, and a joint commitment to a rules-based international order. A major development occurred on 13 February 2025, when President Trump and Prime Minister Modi issued a joint statement pledging to enhance bilateral trade to \$500 billion by 2030, laying the groundwork for future negotiations. The U.S. ranks among India's top trading partners, while India is ranked among the top ten of U.S. trading partners. Key sectors in their trade relationship include information technology, pharmaceuticals, energy, and defense. U.S. companies like Apple and Boeing have made significant investments in India, while major Indian firms such as Tata, Wipro, and Infosys have expanded their global footprint through partnerships with Fortune 500 companies.

During Donald Trump's first term (2017–2021), tensions rose when the U.S. imposed a 25% tariff on Indian goods, followed by the removal of India's Generalized System of Preferences (GSP) status in 2019. The GSP had allowed low- or zero-tariff access for developing countries to support their economic growth. India retaliated with tariffs on U.S. exports such as almonds and steel (Sanyal, 2021) Although both sides attempted to negotiate a "mini" trade deal in 2020, it was not finalized before Trump left office. When President Biden took office, relations shifted toward cooperation, focusing on supply chain resilience and clean energy. PM Modi's state visit in 2023 underscored the importance of strengthening bilateral trade, though no major agreement emerged. With Trump's second administration, there was a renewed emphasis on comprehensive trade negotiations, aiming for a more balanced and expanded trade relationship. Trade between the two countries was significant as shown in the figure below.

The above graph shows that India's exports to the USA have increased significantly over the years. Exports rose from about US \$ 42,448 million in 2014-15 to nearly US \$ 86,514 million in 2024-25, showing almost a twofold increase in a decade. This indicates that the USA has become a major and reliable export destination for India during this period. Key export items include IT services, pharmaceuticals, engineering goods, and textiles. India's imports from the USA have also increased, from US\$ 21,814 million in 2014-15 to around US\$ 45,625 million in 2024-25. Although imports have grown steadily, their growth rate is slower compared to exports. Major imports from the USA include crude oil, aircraft, defense equipment, and high-technology products. The trade balance between India and the USA has remained consistently positive throughout the period, indicating that India exports more to the USA than it imports. During 2019–20 and 2020–21, growth slowed down due to the impact of the COVID-19 pandemic. But from 2021–22 onwards, both exports and the trade surplus show a strong recovery and steady growth. However, U.S. policymakers in the Trump administration had been attempting to focus on reciprocal trade to reduce the \$45.7 billion deficit with India (Sanate,2025)

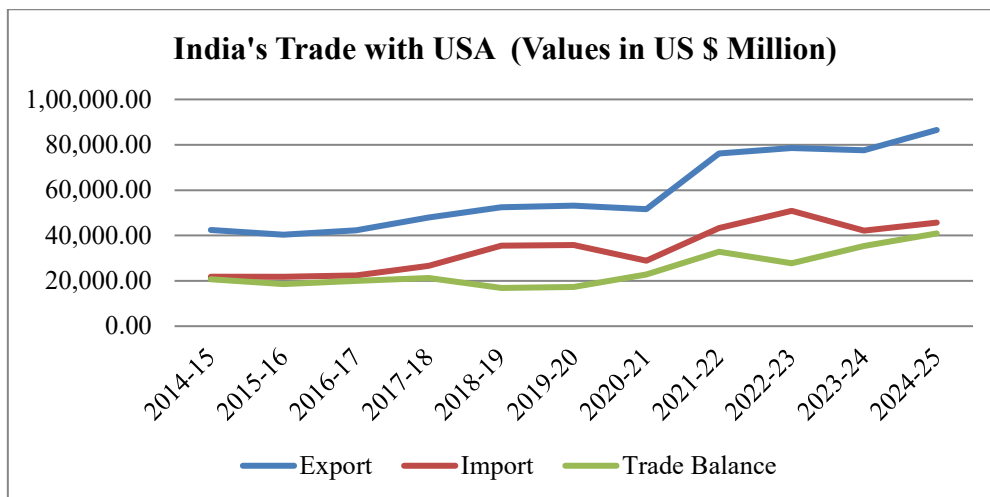


Figure- 1

Source: Ministry of Commerce & Industry (GoI) www.commerce.gov.in.

3.REASONS BEHIND TARIFF IMPOSITION:

The Trump administration has outlined multiple justifications for imposing tariffs on India:

- **Trade Deficit:** The main objective behind the proposed “Fair and reciprocal Plan” is to reduce the US trade deficit. (Gulati et al,2025) The U.S. goods trade deficit with India was \$45.7 billion in 2024, representing a 5.4% increase from 2023. This growing imbalance has been a concern for the Trump administration, which views such deficits as evidence of unfair trading relationships.
- **India’s alleged Non-monetary Trade Barriers:** The United States argues that India’s agricultural subsidies and its sanitary and phytosanitary (SPS) regulations function as barrier for U.S. exports. While India justifies these measures as essential for ensuring domestic food security and safety standards, the U.S. perceives them as protectionist practices that restrict market access for American agricultural products.
- **India’s BRICS Membership:** BRICS is an economic grouping comprising Brazil, Russia, India, China, South Africa, along with several other member states. The bloc is often perceived by the United States as challenging the dominance of the U.S. dollar and, more broadly, American economic hegemony. India’s engagement in BRICS initiatives—particularly discussions surrounding alternative payment systems and trade arrangements—has generated concern in Washington regarding the potential long-term impact on the dollar’s central role in global trade.

The Estimated GDP (Nominal) share of the BRICS and G7 countries from 1990 to 2025

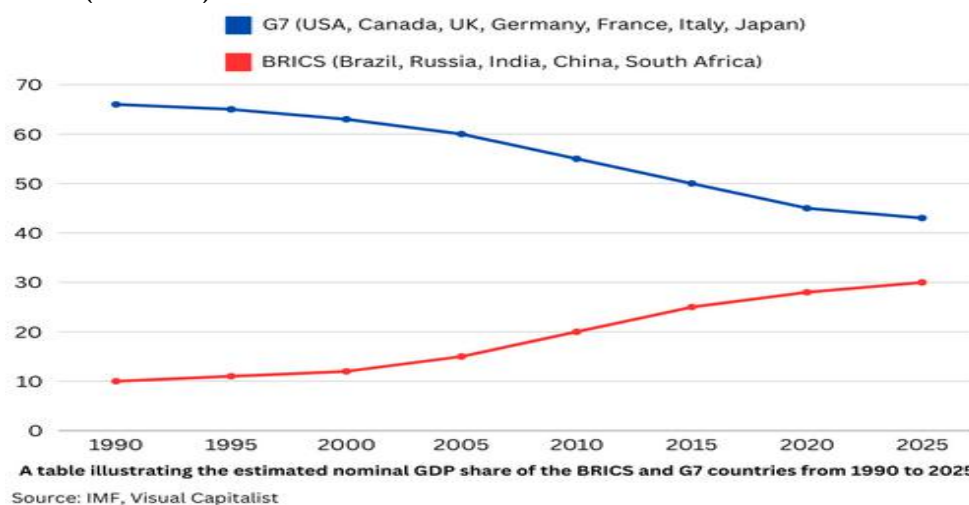


Figure-2



- *India–Russia Relations*: An unspecified penalty is to be imposed due to India’s defence and energy imports from Russia. The USA, in its proposed Russian Sanctions Act, 2025, plans to impose 500% duties on countries that buy oil or other petroleum products from Russia, showing the seriousness of the measures being considered.

This uncertainty of penalties whose scope and magnitude remain undefined appears to be designed to maximize pressure during bilateral negotiations.

4.Key Indian Sectors facing tariff exposure-

- *Electronics and Technology*: India emerged as the largest iPhone exporter to the U.S. in Q2 2025, accounting for 44% of total iPhone exports. The imposition of tariffs threatens to disrupt Apple’s plans to expand its manufacturing capacity in India to 60 million units.
- *Pharmaceuticals*: India is the largest exporter of non-patented drugs to the USA, supplying about 50% of America’s generic medicines. India's pharmaceutical sector faces vulnerability given the margins in this industry.
- *Gems and Jewelry*: With the US representing over 30% of India's global jewelry trade, this sector faces challenges to competitiveness and supply chain disruptions.
- *Textiles and Apparel*: Indian textile exporters are being asked to suspend shipments, as a 25% price increase risks making their products uncompetitive compared to regional competitors.

5.IMPACT OF US TARIFFS ON INDIAN TRADE:

Theoretical perspective: The impact of a trade war can be better understood with the help of economic theories. According to Ricardo’s comparative advantage theory, nations benefit when they specialize in goods where they hold a comparative advantage. (Mannur,1998) However, Trade wars disrupt these natural patterns by imposing tariffs, leading to misallocation of resources. In the context of US–India trade, this has particularly affected sectors such as textiles, information technology (IT) services, and pharmaceuticals, where India holds a comparative advantage. Protectionist measures by the United States, including visa restrictions, tariff hikes, and tighter regulations, have reduced India’s access to the US market, thereby weakening its export performance and global competitiveness in these sectors. Heckscher–Ohlin model further emphasizes the role of factor endowments in shaping trade patterns. (Mannur,1998) India, being a labor-abundant country, benefits from exporting labor-intensive goods and services such as garments, handicrafts, IT services, and business process outsourcing (BPO). Trade wars and policy uncertainties limit these labor-intensive export flows to the US, forcing India to reconsider its trade strategy. As a result, India has been pushed toward greater diversification into capital-intensive industries, technology-driven sectors, and domestic market expansion to reduce external dependence.

From the perspective of Dependency Theory, international trade tends to favor developed nations while keeping developing countries in a dependent position.(Jhingan,2003) India’s reliance on the United States for advanced technology, capital goods, investment, and high-value markets creates structural vulnerability. During periods of trade conflict, this dependency becomes more pronounced, exposing India to economic risks such as supply chain disruptions, investment slowdowns, and reduced export earnings. Consequently, the US–India trade war has reinforced the need for India to pursue long-term self-reliance strategies, such as the Atmanirbhar Bharat (Self-Reliant India) initiative, aimed at strengthening domestic manufacturing, technological capability, and strategic independence. Against this theoretical backdrop, the following section presents a graphical analysis of empirical data to examine how these trade disruptions have manifested in India’s export performance and trade balance.

6. GRAPHICAL ANALYSIS OF DATA:

India’s merchandise exports declined by approximately 12% on a year-on-year basis to USD 34.4 billion, in October 2025 after tariff imposition by the USA. However, exports of electronic goods showed notable growth, as these products were exempt from US tariff measures. As a result of rising imports and declining exports, India’s merchandise trade deficit widened sharply to a historic high of USD 41.7 billion in October 2025. This level significantly exceeded the deficit of USD 26.2 billion recorded in October 2024, as well as the average monthly deficit of around USD 26 billion observed during the first half of FY2026. (Ministry of Commerce and Industry, GoI) The below diagram exhibits that exports of all major items saw year on year contraction in October 2025 including engineering goods, James and jewellery, chemicals, readymade garments and petroleum products etc. For India’s gems and jewellery industry, the United States is the largest export destination, and the impact of tariffs is expected to be particularly severe for the city of Surat in western India. Surat accounts for nearly 90% of the world’s diamond processing and directly employs about 800,000 workers. In addition, India’s textile exporters are facing significant spare production capacity, as they find it



increasingly difficult to compete with products from other countries that are subject to much lower U.S. import duties. This has resulted in considerable revenue losses across the sector. According to ratings agency CRISIL, the pace of revenue growth for readymade garment manufacturers is expected to decline by nearly half due to the imposition of tariffs.

Comparison of Major Export Items from India in October 2024 and October 2025

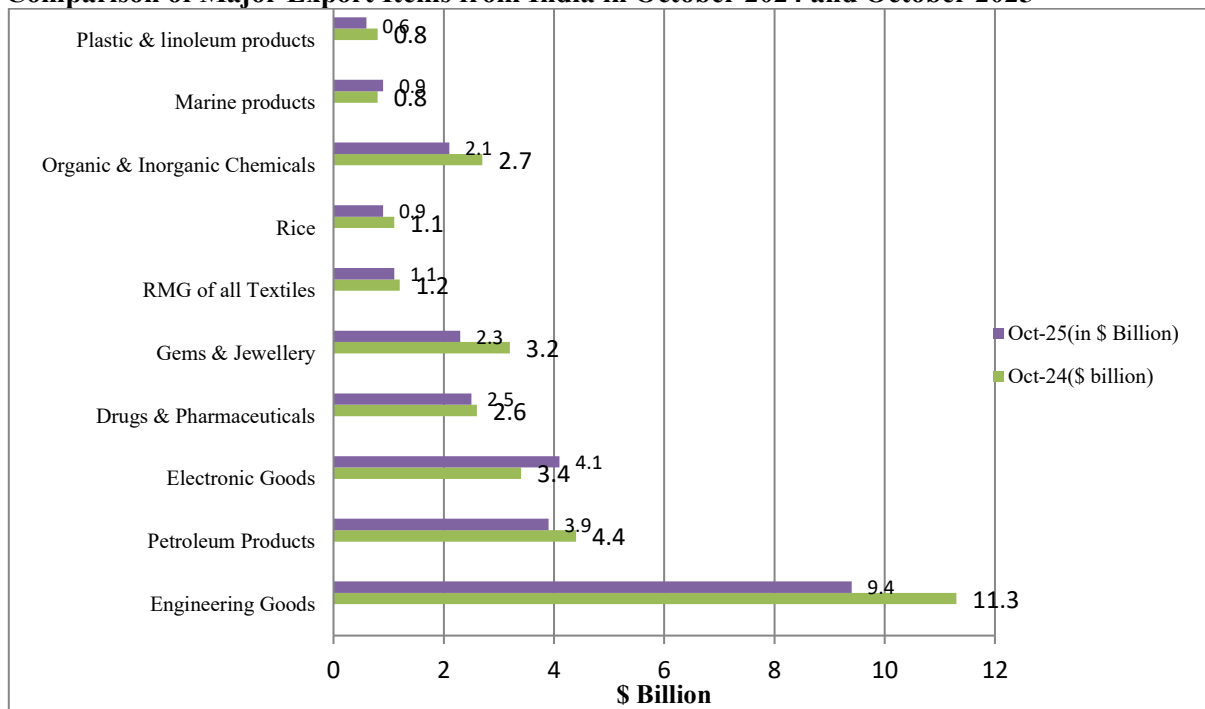


Figure-3

Source: Ministry of Commerce and Industry, GoI; CMIE; ICRA Research.

The imposition of tariffs by the United States adversely affected India’s export performance. (Figure-3) India’s exports to the US fell by 8.6% YoY to \$ 6.3 billion in October 2025.(GoI) Higher tariffs increased the landed cost of Indian goods, reducing their price competitiveness in the US market. This is reflected in the decline in export values and moderation in YoY growth during the post-tariff months. Export-oriented sectors such as textiles, engineering goods, and certain manufactured products were especially impacted.

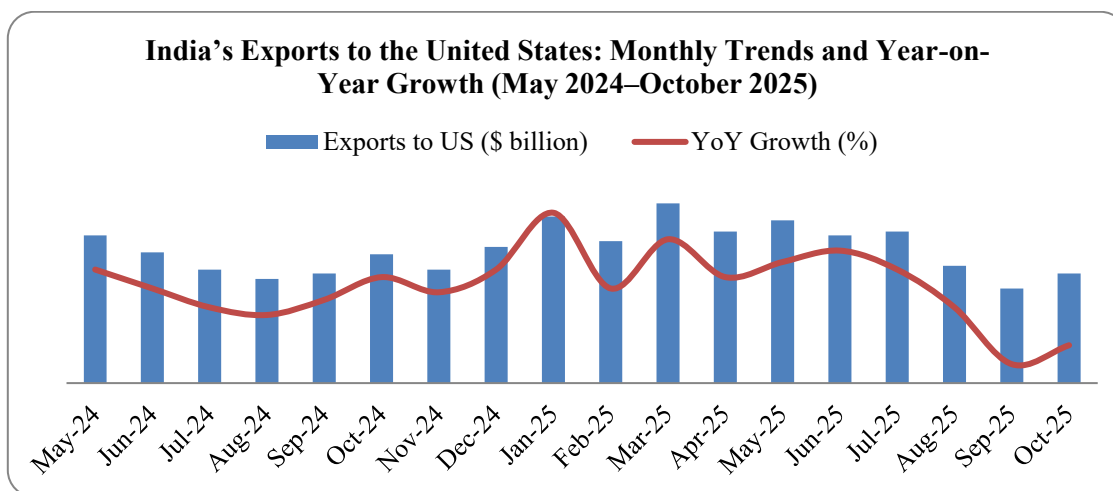


Figure-4

Source: Ministry of Commerce and Industry, GoI; CMIE; ICRA Research.



In line with these observed trends, Gulati et al.(2025) examine the impact of US tariffs on Indian agricultural exports. The study argues that although India's agricultural exports to the United States have historically faced relatively low tariffs, the introduction of reciprocal tariff measures could significantly alter the existing trade surplus dynamics that currently favor India. Furthermore, the tariff policies implemented during the Trump administration have already begun to influence shrimp prices in the US market, leading to an increase of approximately 15–20 percent. At present, India accounts for nearly 45 percent of shrimp supplies in the US market. (GoI), highlighting India's strong but vulnerable export position. In response to these emerging challenges and sectoral vulnerabilities, the Government of India has undertaken several policy measures to mitigate the adverse effects of U.S. trade policies.

7.MEASURES TAKEN BY THE INDIAN GOVERNMENT:

In the past few months, the Government of India has taken several steps to deal with the impact of U.S. trade policies. Since most of the affected sectors are labour- intensive and may lead to large job losses, the government has simplified and restructured the Goods and Services Tax (GST) to increase domestic demand for export products and to make better use of unused production capacity. The government is also speeding up the implementation of the e-commerce export hub scheme to improve warehousing, logistics, and trade processes. In addition, it is fast-tracking the Export Promotion Mission, which includes financial support for exporters, improvement in product quality, better access to global markets, and efforts to strengthen the global image of "Brand India."

At the same time, the Reserve Bank of India (RBI) has taken important steps to protect the economy from the negative effects of U.S. tariffs. It has allowed the Indian rupee to weaken against the U.S. dollar, which makes Indian exports cheaper and more competitive in international markets. This also helps the government earn higher dividend income, which is useful at a time when lower GST rates may reduce tax revenue. In October, the RBI introduced banking reforms to make it easier for businesses to get foreign loans and promoted the use of the Indian rupee in cross-border trade, especially with neighbouring countries such as Nepal, Bhutan, and Sri Lanka.

Beyond its neighbours, India has also expanded its global trade ties. It has signed a trade agreement with the United Kingdom, is negotiating to expand its trade deal with Australia, and has accelerated free trade talks with the European Union, Oman, ASEAN, and several African and Latin American countries. India is also working closely with the United Arab Emirates in the pharmaceutical sector and with Russia in the textile sector to strengthen and expand its exports.

In August, India strengthened its long-standing ties with Japan by launching the Economic Security Initiative to improve supply chains in important sectors such as semiconductors, clean energy, telecom, and new technologies. For India, Japan provides investment, advanced technology, and reliable business practices. For Japan, India offers a large market, growth opportunities, and a young workforce. As part of this partnership, Japan has announced nearly \$68 billion in private investment in India over the next ten years. This support is especially important at a time when global investors withdrew a record \$1.4 billion from Indian stock markets in September due to concerns about U.S. tariff policies. Apart from this, on 27 January, India entered into a Free Trade Agreement with the European Union, which will certainly benefit Indian exporters and also help reduce dependency on the U.S.

8.CONCLUSION:

The introduction of reciprocal tariffs during the Trump administration marked an important change in India–U.S. trade relations. These tariffs were mainly aimed at protecting U.S. economic interests and reducing trade imbalances, but they also created wider effects. For India, the tariffs caused immediate problems by disturbing trade flows and putting pressure on key sectors. Export-oriented industries such as textiles, engineering goods, and certain manufactured products were especially affected, leading to job losses. Moody's Ratings also warned that India's real GDP growth could slow by about 0.3 percentage points in the fiscal year.

However, the Indian economy showed strong resilience and the ability to adjust. Instead of viewing the tariffs only as a challenge, India used this situation as an opportunity to reform its policies and restructure its economy. India has a large domestic market, growing entrepreneurship, and supportive government policies which helped the country turn these pressures into opportunities for industrial development, export diversification, and a stronger role in global trade. In order to minimize the impact of tariffs in the future, India should reduce its dependence on the U.S. market and expand its exports to new regions such as Europe, Latin America, and Africa. It should also increase the production of high-value goods under the "Make in India" initiative. At the same time, India must speed up talks with the U.S. on tariff reforms and a possible free trade agreement. India's success in sectors like electronics shows that investment in technology can help reduce the negative effects of tariffs. In the long run, India should focus on innovation, diversification, and maintaining a balanced trade strategy to protect its economy from similar policy shocks in the future.

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