

New US tariff policy and its impact on India

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ABSTRACT

This paper aims to understand the changes implemented by the Trump administration under its "America First" trade policy and its impacts on India. The objective is to understand the rationale behind the United States protectionist measures, particularly targeting Indian export sector like steel, aluminum, and other key imports, and how these actions affected India. The paper also further explores the broader implications on bilateral trade relationship between India and US since India also decided not to give in but had taken some retaliatory measures the suspension of its preferential trade status under the Generalized System of Preferences (GSP). Analysis was done based on various case studies, trade related data and study materials from genuine data sources. The short- and long-term impacts on India and India's response has been discussed including the efforts towards trade diversification and the long-term influences on Indo-U.S. economic relations. The paper concludes with observations as per the current scenarios and possible predicted future outcomes; however, is open to admit that like there are no permanent friends or enemies in world politics; the current economic situation can also see a drastic and immediate paradigm shift from its current position.

Keywords: Reciprocal tariffs, Trade Deficit, U.S–India trade relations, Protectionism, Bilateral trade agreement, GDP growth resilience, Global trade uncertainty

Introduction

In 2025, Donald Trump's re-election initiated a return of protectionist trade policies, including the implementation of reciprocal tariffs to address U.S. trade deficits. (The Hindu,2025; BBC news,2025) A particularly significant development was the imposition of a substantial 26% tariff on imports from India which was later increased to 50%, sparking a dramatic increase in trade friction between the two nations. This research paper analyses the wide-ranging economic consequences of these tariffs on India's vital export sectors like pharmaceuticals, automobiles, IT services, steel, and agriculture. It also considers India's overall macroeconomic strength and its

strategic policy responses. Set against the backdrop of ongoing trade talks and an evolving global economy, this research aims to assess India's ability to withstand external trade shocks while simultaneously pursuing economic growth

Under this current situation, this research gathers a great deal of important because it aims to bring to light both the immediate economic costs and the strategic decisions needed by India. Such understanding can prove to be crucial during making important policy decision and also for individual who need to be aware of the trends and decision that can impact India and thereby also impact people at large.

Statement of problems:

- 1) To analyze the effect of the new Trump administration's tariffs policy on India's economy.
- 2) To analyze what the Indian government done is response the Tariff changes.

Significance:

This economic study contributes to the understanding of the changing trade relations between India and US. Overall, this paper will evaluate the impact of a tariff policy on both countries on the short and long term. How India reacts to these changes will decide the state of India's domestic production and export market in the long run.

Literature Review:

Countries often depend upon one another for various good and services; the primary objects of these imports are to benefit from the availability of various required resources in other countries and as part of the countries mutual trade relationships and agreements. However, they also have a duty toward striking a balance between these imports and domestics business requirements. In many cases tariffs are also used as a tool for foreign policy and dictating terms.

In general, Tariffs are taxes imposed by one country on the goods and services they import from another country. Tariff's also increase the price for the end consumer since it makes those foreign goods more expensive compared to domestically produced goods.

Purposes of Tariffs are to protect domestic industries as they pay a role in curtailing imports to a certain extent and they by provide some protection to local business who provide similar good and services. They increase government revenue by collecting taxes which can be used for the overall betterment of the country. Tariff is also used as a Tool by countries in response to decisions taken by other countries which they may consider to be unfair.

‘Tariff as a Tool’ strategy is what seems to have been adopted by the Trump administration. While President Trump mentioned a range of issues including drug trafficking and illegal immigration as reasons for the reciprocal tariffs, the primary objective of the tariff policy is to reduce the US trade deficit with other countries. President Trump views these deficits as a result of unfair trade practices by the US trading partners and considers them a loss for the US economy. India had a major merchandise trade surplus of around \$46 billion with US in 2024.

Merchandise imports, exports and trade deficit of partner countries with whom US had the largest merchandise trade deficits in 2024 (in US\$ billion)

	US Imports	US Exports	Trade deficit
China	438.95	143.55	295.40
European Union	605.76	370.19	235.57
Mexico	505.85	334.04	171.81
Vietnam	136.56	13.10	123.46
Taiwan	116.26	42.34	73.93
Japan	148.21	79.74	68.47
South Korea	131.55	65.54	66.01
Canada	412.70	349.36	63.34
India	87.42	41.75	45.66
Thailand	63.33	17.72	45.61
World	3267.46	2065.13	1202.33

Source: United States Census Bureau, authors’ calculations

Reciprocal tariffs as the name implies are taxes that a country applied to goods imported from another country as a response of similar actions taken by the other countries. It is often used as a tool to shield domestic industries from foreign competition. It is supposed to provide a level playing field by mirroring those barriers and protecting jobs and manufacturing.

Trade relationship between India and US has a long history of ups and downs; however, they had been tilting more towards a cordial and friendly relationship up until recently. As of 2025 however; the relationship has been getting increasingly complex under the Trump 2.0 administration. Under the previous US administrations, the United States had shown a great deal of accommodation to India’s interest and bilateral relationship. Trade was also flourishing even during Trump’s 1st term.

As per the available data, bilateral trade was at its highest in the year 2024 and this was during Trump’s 1st term as president. It’s not very uncommand for a president to undo many of the work and policies applied by his predecessor, and, Trump 2.0 administration seems to be doing exactly the same to Trump 1.0 administration. As of 2024, US was India’s largest trade partner accounting for almost \$120 billion in trade; however, India was still the 10th largest trading partner for US. This data can reflect on a substantially more adverse effect on India since India is more reliant of US for trade.

Largest trading partner for India

1.	US	\$119.7B
2.	China	\$118.4B
3.	United Arab Emirates	\$83.7B
4.	Russia	\$65.4B
5.	Saudi Arabia	\$43.0B
6.	Singapore	\$35.6B
7.	Iraq	\$33.3B
8.	Indonesia	\$29.4B
9.	Hong Kong	\$28.7B
10.	South Korea	\$27.6B

Largest trading partner for US

1.	Mexico	\$839.9B
2.	Canada	\$762.1B
3.	China	\$582.5B
4.	Germany	\$236.0B
5.	Japan	\$227.9B
6.	South Korea	\$197.1B
7.	Taiwan	\$158.6B
8.	Vietnam	\$149.7B
9.	UK	\$148.0B
10.	India	\$129.2B

Note: India's most recent data is from their fiscal year from April 2023 through March 2024, while the most recent US is for the full calendar year of 2024.

Source: US Census Bureau, India's Ministry of Commerce and Industry
Graphic: Rosa de Acosta, CNN

(India Briefing, 2025) These aggressive Tarriff implementation measures could likely impact around \$48.2 billion worth of India’s merchandise exports to US. On August 7, 2025, a 25 percent tariff on Indian exports to the United States had officially been implemented, as per the revised trade measures announced by President Trump. Later on, August 6, 2025, Trump announced an additional 25 percent tariff on Indian exports as punishment for India’s continued import of crude oil from Russia. This new measure raises the total tariff burden on Indian goods to 50 percent which is among the highest rates currently imposed by the US on any trading partner.

(Reuters, 2025) Indian exporters have already reported to feeling the impact, citing growing uncertainty and disruption in trade flows. Around 50 percent of the exports from India to the US fall under the exemption list covering key items like pharmaceuticals and electronics. However, these key items are also at risk of being removed from the exception list and the remaining half of the exports are now subject to the steep tariff. "There will be some negative shock on manufacturing numbers for July-September quarter, but it is difficult to make a precise estimate," Nageswaran said.

US is currently unwilling to participate in any sector specific tariff negotiations, especially in the steel and automobile sectors which have already faced losses of over \$5 billion in export value.

(Times of India, 2025) Chief Economic advisor of India; Dr. V. Anantha Nageshwara said the tariffs imposed by the US on India could be "short lived". Renowned economist and Columbia university professor Jeffrey Sachs says that US President Donald Trump’s tariff decisions might be doing more harm to the US than good; he also goes ahead and calls the tariff decisions as “bizarre” and “very self-destructive of US foreign policy interests”. (Times Now, 2025) The renowned American economist Richard Wolff also strongly criticised the Donald Trump administration for imposing 50 per cent tariffs on Indian imports, arguing that the US is posturing as the "world's tough guy" but ultimately harming its own interests. He warned that

such actions are driving BRICS nations to position themselves as a serious economic alternative to the West. In the long-term US may also not be able to stay unaffected by its own decisions. While tariffs can technically boost the dollar; they may also have created uncertainties around US policies. Some experts are of the opinion that the Trump administration's flip-flopping over Tariffs may prove to be detrimental to the confidence in the US dollar.

Methodology:

This research uses a qualitative methodology using secondary data to examine the impact of tariff measures imposed by the current Trump administration especially on India, the subsequent economic and political effects and the India governments response.

Data collection:

Information taken from news outlets like BBC, Reuters, India Today, The Hindu, Economic Times, NDTV Profit, Times of India, and Outlook Business ; financial sources like Moody's and research papers from SSRN, The Round Table, Journal for Basic Sciences and American Journal of Economics and Business Management

Scope of the study:

Focused Indian economic changes in accordance with the tariff implementation during the period of January-September 2025. Concentrated on five important sectors (pharmaceuticals, automobiles, IT services, steel, agriculture) to assess direct impacts. Primary sources are not available to be used in research.

Analysis:

Comparison of tariff rates, trade flows, and export dependency before and after tariff changes. Included statements from policy makers to understand the political context.

Calculations:

According to the United States Trade Representative, the reciprocal tariffs are calculated as the tariff rate necessary to balance the bilateral trade deficits.

The given formula for calculation is as follows:

$$\Delta\tau_i = \frac{x_i - m_i}{\varepsilon * \varphi * m_i}$$

$\Delta\tau_i$ represents the change in the tariff rate of country i.

$\varepsilon < 0$ represent the elasticity of imports with respect to import prices.

$\varphi > 0$ represent the passthrough from tariffs to import prices.

$m_i > 0$ represent total imports from country i.

$x_i > 0$ represent total exports to country i.

Findings:

The imposition of a 50% tariff on Indian imports to the United States marked a sharp escalation in trade tensions, directly impacting key export-driven sectors of the Indian economy.

These tariffs, introduced as part of Trump's strategy to address the persistent U.S. trade deficit and push for stricter reciprocal terms, were particularly consequential for sectors such as pharmaceuticals, automobiles and auto parts, IT services, steel, and agriculture. (The Hindi, 2025) The tariff differential or gap is 8.6% for chemicals and pharmaceuticals; 5.6% for plastics; 1.4% for textiles and clothing; 13.3% for diamonds, gold, and jewellery; 2.5% for iron, steel, and base metals; 5.3% for machinery and computers; 7.2% for electronics; and 23.1% for automobiles and components as of April 2025.

(Hindustan Times, 2025) India's pharmaceutical sector, a global leader in generic drug exports, was initially spared from direct tariff hikes. However, Trump's proposal of a 200% tariff on India's pharmaceutical goods in July has raised an alarm in the industry. Given the scale of pharmaceutical exports to the U.S., any change in tariff status could significantly reduce export revenues, cut demand and threaten supply stability.

(The Economic Times, 2025) The auto industry is facing increasing challenges. High tariffs on automobiles and components have decreased India's price competitiveness. This change may impact production, employment, and the efficiency of the supply chain.

(Outlook Business, 2025) India's IT services sector is a top player in generating exports. However, it faces an indirect threat. Digital services have not been targeted directly. However, they might be included in future tariffs. This could reduce demand, lower export volumes, and create long term risks. Higher import taxes will likely lead to revenue losses in industries like steel and agriculture. (The Hindu, 2025) The overall impact of these tariffs on India's export portfolio is visible in other sectors, including electronics, chemicals, refined petroleum, and jewellery.

(The Economic Times, 2025) India's economy stays strong despite external pressures. GDP growth predictions for 2025 and 2026 are expected to be between 6.3% and 6.8%. This growth is

due to a large domestic market and less reliance on exports compared to other emerging economies. Moody's has pointed out India's resilience, crediting it to its diverse economy and internal growth sources that help shield it from trade disruptions.

(The Economic Times,2025) In response to the tariffs, India has adopted a dual strategy approach. It is involved in trade negotiations and exploring possible changes to domestic policies. Ongoing discussions for a mini trade deal with the U.S aim to finalize a larger trade agreement. This agreement would lower tariff impacts and boost the trade relationship to a goal of \$500 billion by 2030. India is also open to offering zero tariffs to the United States on "select goods" such as steel, auto components, and pharmaceuticals but only up to a certain volume of imports, in order to mitigate risk of trade imbalance between the two nations. The External Affairs Ministry has indicated that India may be one of the few economies actively working with the U.S. to finalize such a deal under Trump's renewed administration. However, Multiple rounds of negotiations have failed to break the deadlock, primarily centred on India's reluctance to grant market access to American agricultural and dairy products. India and the US aim to finalise discussions for the initial phase of the bilateral trade agreement by September-October.

(BBC news, 2025) In response to the increase tariffs enforced to punish India for buying oil and weapons from Russia, Prime Minister Narendra Modi emphasized that India's biggest enemy is its dependance on foreign countries. He has given major importance to self-reliance and domestic production by urging small shop owners and businesses to produce and sell more goods in India. However, increasing production in India has been difficult, the GDP share of manufacturing sector is stagnating at 15%.

The Trump administration had used this formula to calculate the tariffs that were levied against different countries.

$$\Delta\tau_i = \frac{x_i - m_i}{\varepsilon * \varphi * m_i}$$

Assuming that $\varepsilon = -4$ and $\varphi = 0.25$. From the information given by the United States Trade Representative we know that, $x_{\text{India}} = \text{\$41.5 billion}$ (U.S. goods exports to India, 2024) and $m_{\text{India}} = \text{\$87.3 billion}$ (U.S. goods imports from India, 2024). Therefore, the US trade deficit with India is \$45.8 billion. This would imply a reciprocal tariff of 52.4628% which after discounting gives 26.23%.

Recommendations:

- Retaliating by matching Trump's tariffs would be detrimental to India more than the US in the long run. US is India's largest trading partner, whereas India is only the tenth largest partner for the US.
- From a long-term perspective, the US is making a big mistake by imposing these heavy tariffs. Isolating themselves from its trading partners will slow down their economic growth and hamper the relationships they have built with other nations.
- While the tariffs have setback India's export sector, Prime Minister Modi's decision to focus on strengthening domestic markets will surely boost their economy in the long run. While this will slow down India's economy in the short run, they will be outweighed by the long term benefits of self-sufficiency and a stronger economic foundation.
- Instead of imposing protectionist tariffs, the US should focus on boosting domestic production to increase their export competitiveness. Increasing exports will reduce the trade deficit without disrupting global supply chains and straining trade relations.
- India should diversify its export destinations to reduce the heavy dependency on US. Strengthening trade partnerships with the European Union, Southeast Asia and Africa can help stabilize export revenue.

Conclusion

The study attempts to analyze the impact of US tariff policy under Trump-led administration in India, with specific reference to pharmaceuticals, automobiles (and parts), IT services, steel and agriculture. 50% tariffs put pressure on export competitiveness and caused concern about long-term influence. In spite of these difficulties, the GDP growth rate projected for India stands at 6.3-6.8 per cent and its capacity to rely on internal markets was found to be less vulnerable in the face of external shocks. Current India-U.S. trade negotiations can address these tariff constraints and improve both countries' trading relationships. Announcements by the policymakers, especially those made public by Prime Minister Modi, have stressed on reducing dependence on overseas markets and supporting domestic growth.

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