

**Impact of current tariffs currently being discussed to be imposed by the US:  
with special emphasis on the Indian Agricultural sector and particular the  
edible oil sector**

Aarav Goyal

Sat Paul Mittal School Ludhiana

DOI: 10.46609/IJSSER.2026.v11i02.026 URL: <https://doi.org/10.46609/IJSSER.2026.v11i02.026>

Received: 10 February 2026 / Accepted: 17 February 2026 / Published: 28 February 2026

**ABSTRACT**

*The current imposition of tariffs by the US government has led to major disruptions the world over. The prime reason being that US has an the excessive balance of deficit with a large number of countries across the world. Since the Russian-Ukraine conflict, it has with impunity wanted to impose high rates of tariffs on those economies that trade with Russia. India being one of them the US government has imposed penalty tariffs on Indian commodities. India cannot open its agricultural sector to US goods as this would lead to disastrous consequences with respect to the Indian marginal farmer whose main source of livelihood is the small land holding that he owns. The government through all its subsidy policies have protected the farmers from competitive pricing and dumping policies followed by developed economies. The only solution is productive dialogue and opening up sectors for the US economy that do not adversely impact the small farmer; this could be in the import of dry fruit, automotive sector, defense and nuclear energy.*

**Keywords:** Tariffs, unfair trade practices, anti dumping, protective duty, trade wars, adverse climate impact, reciprocal tariffs, market opportunities.

**1. Introduction**

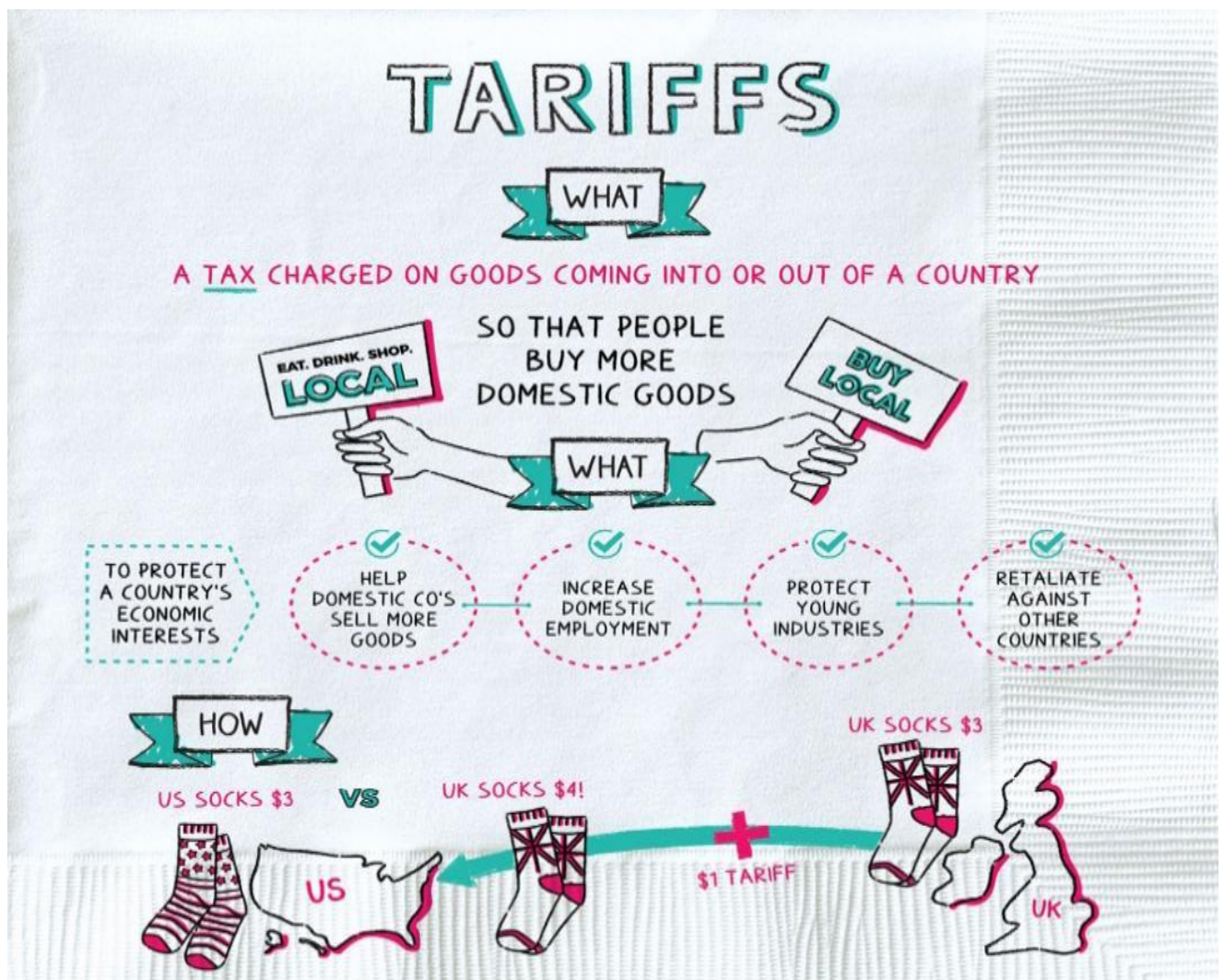
Tariffs involve duty imposed by the importing country. In the United States and other developed and developing countries tariffs are imposed to primarily protect the domestic industries. They are a form of a tax on imports where they are passed onto the consumers in the form of higher price

Countries have used this as form of tax to protect domestic industries such as agricultural and renewable energies and also retaliate against a government unfair trade practice.

Countries have used this tax weapon to support home grown industries by increasing the cost of the imported item thus making it more expensive and encouraging consumers to buy goods that are produced locally.

After WW2 the use of tariffs declined because developing economies thought these taxes would lead to reduction in trade. Tariffs give a price advantage to locally produced goods over similar goods which are imported and they raise revenue for tariffs.

Figure 1: Image on impact of tariffs

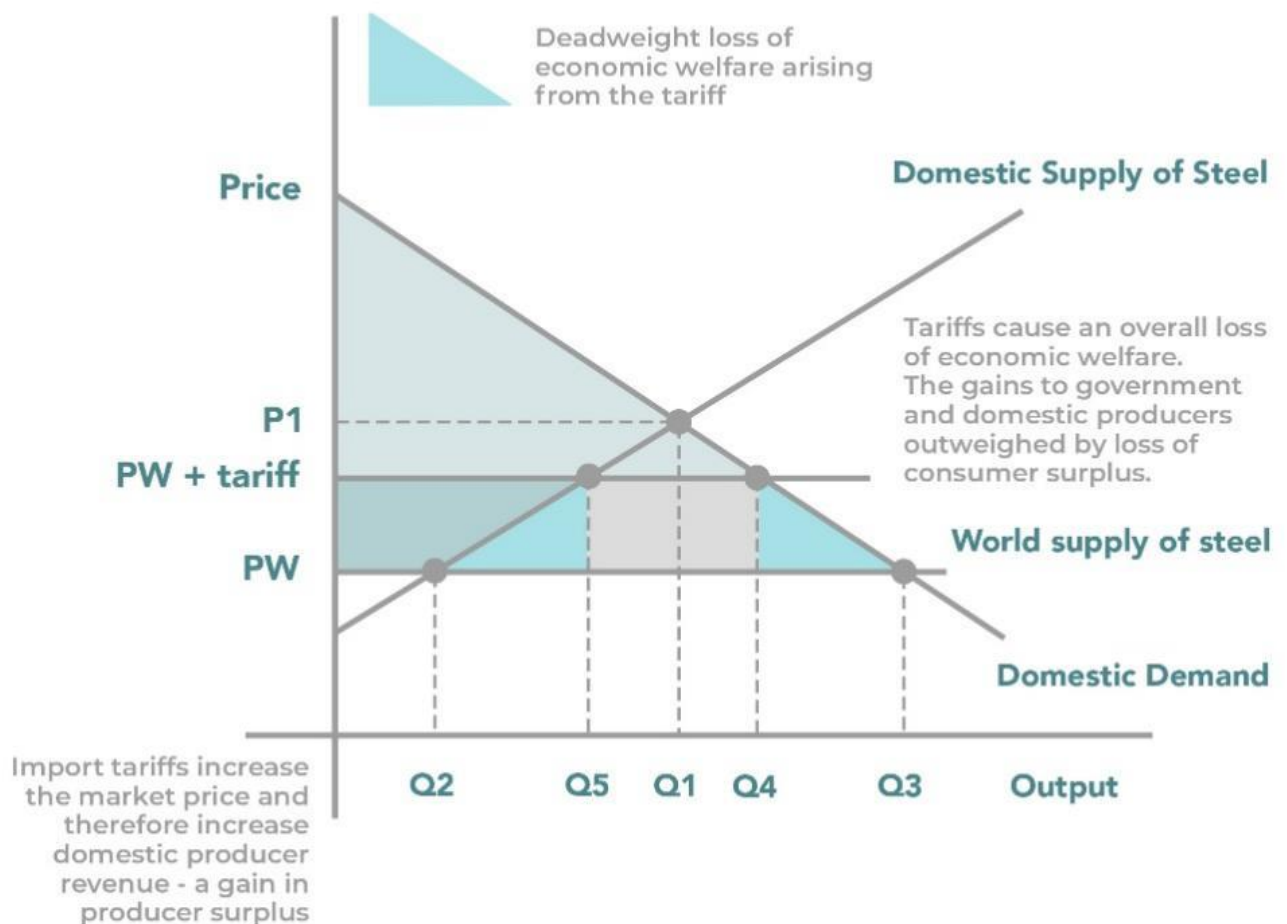


Source: Google image

The basic economic theory of tariffs can be seen in the following diagrams.

Figure 2: Graphical representation on the impact of tariff on domestic demand and supply

## HOW TARIFFS AFFECT PRICES



Source: [www.investigatinganswers.com](http://www.investigatinganswers.com)

In the late 20<sup>th</sup> century, the concept of free trade started becoming more acceptable to the world. To ensure best trade practices the WTO (World Trade Organisation) was formed on January 1<sup>st</sup> 1995. *The aim of this organisation was to ensure that no country should enforce barrier to trade if all safe trade practices are followed.*

One of the reasons of the imposition of tariffs is to protect their domestic industries from exploitation by other economies in the form of cheap and bulk imports. The economy can safeguard itself from these practices by imposing the following:

- Anti-dumping duty; these are tariffs imposed on imported goods that are sold at prices below the market value in the exporting country or at a price that is below the cost of production.
- Safeguard duty; According to the WTO, these tariffs are imposed on imports from all countries. They have an expiry date.
- Protective duty; These are imposed by the country which has seen a sudden increase in imports. Protective duties are thus imposed to safeguard domestic industries from unfair competition.
- Countervailing duty; These duties are imposed on imports by an economy to offset the impact of subsidies by the exporting country.

## **2. Research Gap**

The paper would analyse the importance that the United States is placing on the imposition of tariffs in the 21<sup>st</sup> century, when theory has clearly stated that there are detrimental factors involved. An analysis on the continuing importance placed by the Trump government would be authenticated by secondary sources, which would be used to discuss the various positive and negative factors that are involved in its process. A special emphasis would be on the impact of the imposition of such taxes on the oil industry worldwide given the ongoing Russia- Ukraine crisis.

## **3. Methodology**

The analysis would use a mixed method format that combines both quantitative and qualitative data to understand the factors behind the incessant emphasis on tariff protection and the oil industry. Quantitative analysis would be from authentic primary sources that would be combined with qualitative reasoning to give an adequate explanation.

## **4. Literature Review**

Tariffs over the years have been adopted by various governments for various reasons, but often they have been reversed due to the detrimental impact on various economic indicators.

The tariffs have the following impact on the economy namely in terms of

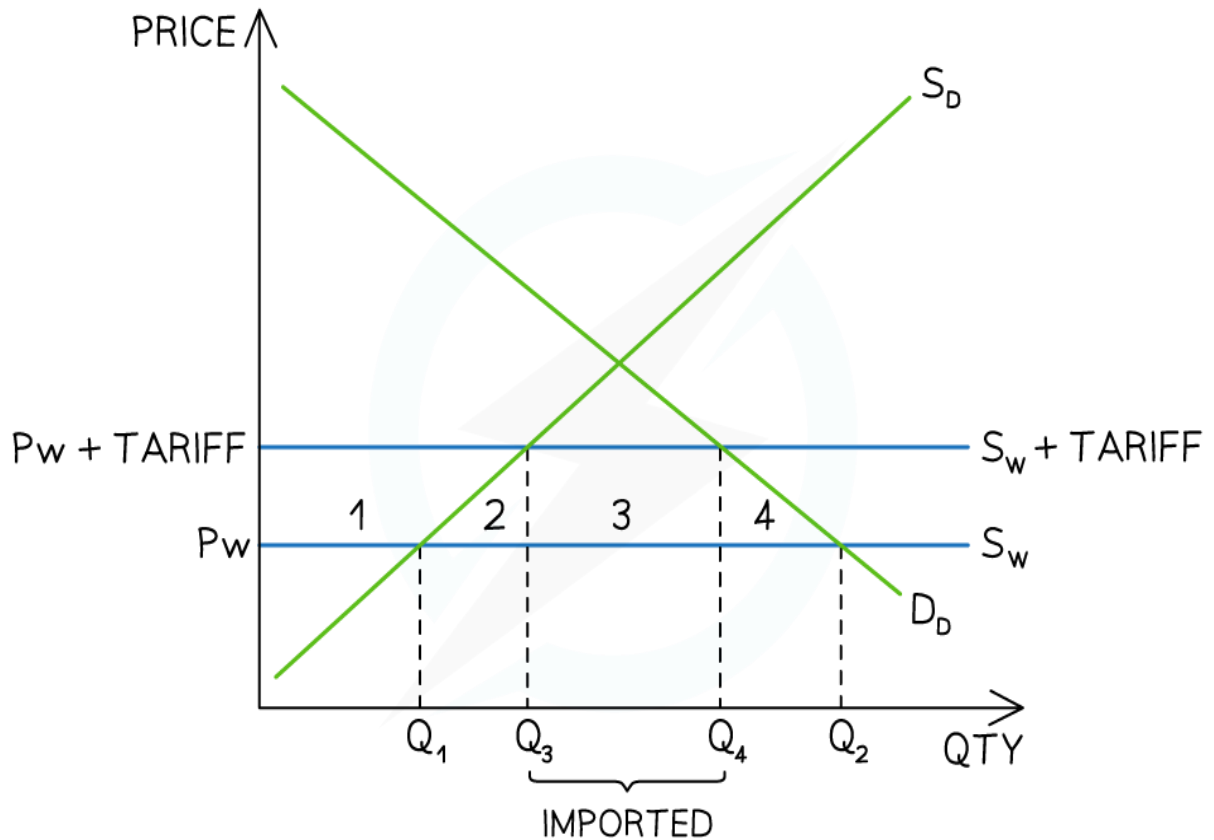
- **Impact on trade**

Research has indicated that tariff increase is normally associated with an economically and statistically sizeable and persistent decline in output growth.

The reason that free trade is advocated is due to the theoretical morals of comparative advantage as well as evidence that suggests a decline in economic efficiency and welfare. Evidence gathered from few countries tend to indicate negative impact of tariffs on macro-economic indicators. Debate on literature available from 1990-2000 has found that there is a positive correlation between trade and growth. Some evidence have indicated that protectionist countries grew faster in the 19th century (Bairoch,1972, O Rourae,2000), but only in the short run it eventually lead to a decline in production in the long run. Other studies have stated that there is none or limited negative effects from tariff (Krugman,1982, Ostry and Rose,1992). These authors find no significant effect on real exchange rate, real trade balance and real output. Studies by (Amiti, Redding and Weinstein,2019) have pointed towards welfare losses but this was limited a few countries.

- Impact on domestic industries: Affects competitiveness and production cost, at the same time it reduces import competition.
- Macro-economic implications: By protecting domestic industries jobs can be created that can lead to economic growth.
- Political and social dimensions: There is a possibility that tariffs lead to retaliatory measures from other countries leading to create wars.
- Types of tariffs
- Trade wars
- Circumvention and trade diversions: There is a possibility that goods entered the country illegally circumventing paying tariffs.
- Environmental impact: Inefficient and overutilisation of scarce resources can adversely impact the environment.
- Welfare effects

4.1 Economic theory behind the imposition of tariffs



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5. Analysis

A trade deficit – also known as a negative balance of trade means that the imports of a country are greater than exports. This essentially means that the economy is spending more on goods that are not produced within the economy. An increasing extent of exports is helping the other countries production and GDP. With the exports falling short of imports leads to a deficit in the balance of payment, leading to resources being diverted from other areas to reach an equilibrium in the balance of payment.

The United States has the largest trade deficit in the world. In 2023, the trade deficit of this nation was \$773.4 billion. While the country brought in \$3,826.9 billion in imports, the amount of exports was just \$3,053.5 billion, (BEA, 2024). The largest exports of the United States were cars, food, and commercial aircraft. The largest imports were cell phones, oil, and cars.

United States has the maximum trade deficit with China as indicated in the table below;

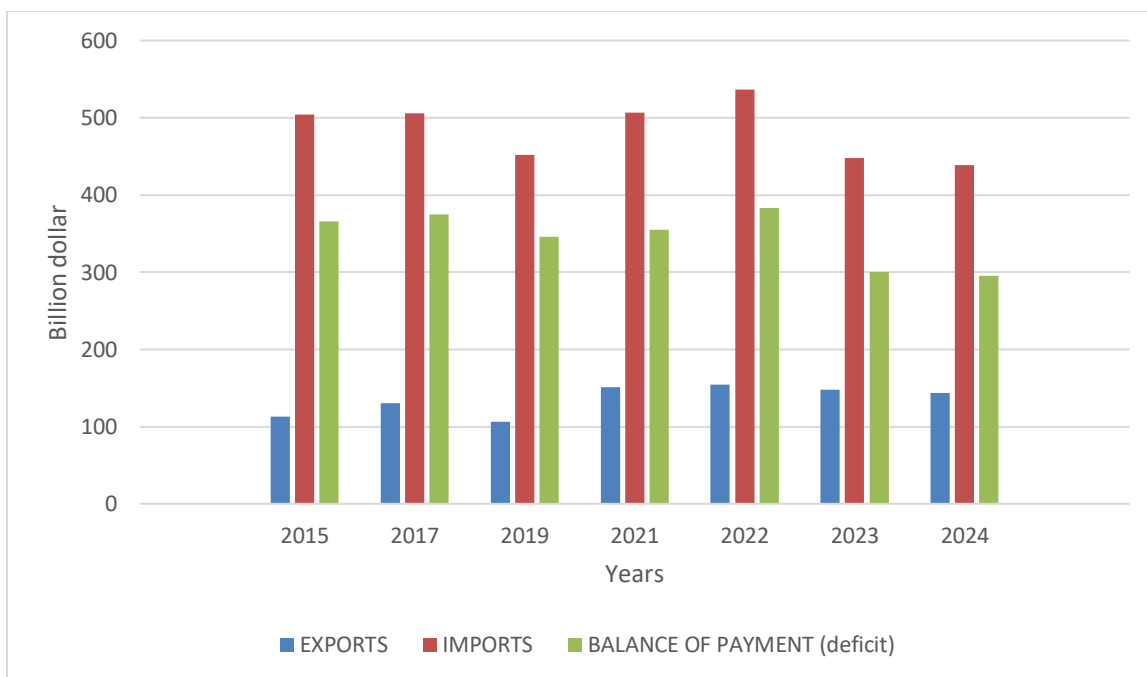
**Table1: Tabular representation of US Balance of Payment with respect to China**

YEAR	EXPORTS	IMPORT	BALANCE OF PAYMENT (deficit)
2015	\$113 billion	\$504.03 billion	\$365.7 billion
2017	\$130.4 billion	\$505.6 billion	\$375.2 billion
2019	\$106.6 billion	\$452.2 billion	\$345.6 billion
2021	\$151.1 billion	\$506.4 billion	\$355.3 billion
2022	\$154 billion	\$536.8 billion	\$382.9 billion
2023	\$147.8 billion	\$448 billion	\$300 billion *
2024	\$143.55 billion	\$438.95 billion	\$295 billion *

\*: This indicates that the export of services has increased which has resulted in a declining overall balance of payment(deficit) for the year 2023 and 2024.

Source: US Bureau of Economic Analysis

**Graph 1: Depiction of exports, imports and balance of payment of the US economy.**



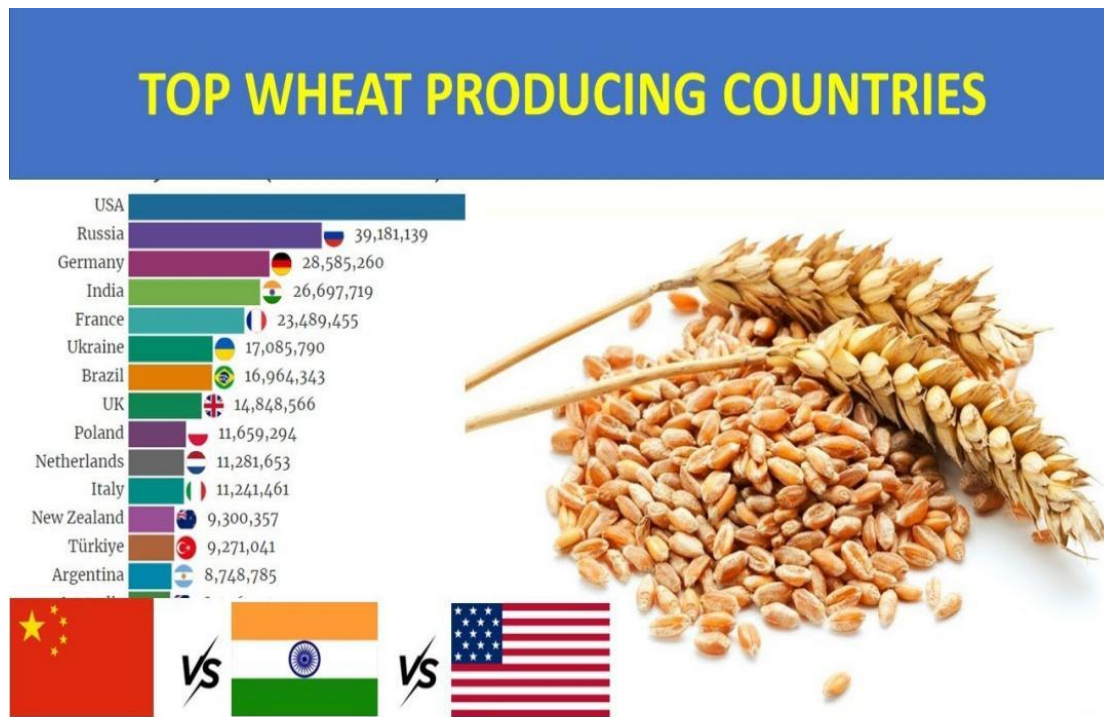
### 6. Imposition of tariffs by the US on agricultural sector

The US has imposed tariffs on agricultural commodities primarily to protect farmers in the US, and also to bring to the table countries like India so that they open their market for US agricultural products. The three countries which have been targeted are Brazil, Canada and India.

The result of the above tariffs has impacted global agricultural exports into the US. It imposed “a reciprocal rates” on countries that prevented US agricultural commodities from entering their shores. The order that has come into force on 7<sup>th</sup> August 2025 states that there would be a universal base line tariff of 10 % on all US good imports and reciprocal rates that could increase to 50% with those economies where US has a high trade deficit.

Analysing the 2024-2025 agricultural season, the most important economy that led global wheat production was China with 140 million metric tonnes, followed by the European with 122 million metric tonnes, followed by India with 113 million metric tonnes. The production in China and India is primarily for its own domestic production. The countries that are sending their wheat to China are Australia, Canada, the EU, Russia and the United States.

Figure 4: Top wheat producing countries



Source: Google images

The imposition of tariffs by the US has negatively impacted American farmers leading to reduced export revenue for soy bean, corn and wheat. As America imposes tariff reciprocal tariffs have been imposed by other countries leading to major disruption in global supply chain.

The aim of these tariff policies is to reduced deficit that America has with other countries. But this has resulted in other countries imposing tariff in return. Trump has imposed these tariffs because countries like India, prevent foreign agricultural commodities from entering their countries due to policies of protecting their own farmers. India imposes a trade weighted tariff of 65% compared to US imposing 4% and 5% respectively(Trump's tariffs threat : likely impact India's agricultural trade. Ashok Gulati, Harsh Wardhan, Sulakshna Rao, Tanay Suntwal Feb 2025. ICRIER). This would negatively impact India as it is India's largest selling partner. India has always protected its farmers, by prevention of anti dumping policies by developed economies that have reached high levels of efficiency, with their products being sold at lower price.

## **7. Reasons for the USA Agricultural Sector wanting access to the Indian Market**

The main reasons for entering the Indian market are:

- Market opportunity; with the Indian economy growing at a phenomenal rate, presently it is the fastest growing major economy. Recent reports have indicated that it will clock a GDP growth rate of about 6.2%- 6.6% for the year 2025. One of the main reasons for this increased and continuous growth rate has been the sustained growth in the agricultural sector.
- US Agricultural Export Crisis- The main reasons for the problems in the US agricultural sector has and is the high input costs; basically for seeds, fertilisers,and energy. Combined with these increased cost of production has been the systematic declining costs of the final product of corn, soy and wheat, leading to a declining net farm profit for the farmers.Adverse climatic impacts like severe droughts, extreme heat and intense rainfall have lead to increasing soil erosion creating adverse growing conditions. With all the above factors costs of production have continuously been on the rise, leading to increasing loans by the farmers and the possibility of higher debt and bankruptcies, that have threatened farmers existences. Along with this the increasing aging farmer population and the almost non existence of the younger population entering this sector due to the issues that have been mentioned above. This would risk the viability of many family farms, threaten the farmer community and the American agricultural sector.

This decline would impact the whole economy adversely due the significant linkage effects that it has. The adverse impact would be in the following areas ;

- i. On the 'trucking industry', farm equipment manufacturing, chemical production.
- ii. Inflationary impact ( reduced supply in the face of increasing demand)
- iii. Negative impact on the governments budget, as the farmers would expect greater subsidies and other monetary support. This would lead to reduced overall productivity.

Given the importance of the agricultural sector for any country, a decline in the growth of this sector would negatively impact the connected food, fiber and the bio energy sectors of the Economy.

- Reciprocity; Various tariffs and non tariff barriers restrict the export of US agricultural commodities to other countries.

The only way to help and revive the agricultural sector is to encourage export of its products. This will widen the market for the US farmers, providing the incentive to produce more and encouraging young farmers in entering this sector.

This is one of the main reasons that the US government wants access to the Indian market.

### **8. Problems that the Indian Economy has in importing agricultural products from the US**

Agricultural products in India through various programme like the MSP(minimum support price) assures adequate compensation to farmers, well before sowing so that they are in a situation when they are unconcerned about any adverse situation that might lead to fluctuation of prices. As the time involved from the time the crop is sowed and subsequently harvested is long. Any import of agricultural commodities would adversely impact millions of farmers who operate on very small holdings. This would be a disaster in the making as far as lively hood of the most vulnerable section of Indian,s society is concerned.

India being a growing economy with a large portion of its population changing their consumption preferences, it presents an opportunity for American farm products.

The products that the US require access to into the Indian Market are;

- ❖ Corn: India does not want to import this product, as all the corn produced in the US, is the 'genetically modified variety'. According to research, this variety has an adverse impact on health. There are on going studies that indicate that it creates **organ toxicity**, leading to severe liver and kidney damage. These are ongoing results on experiments conducted on animals.

Besides the above there are reports that have proved severe allergic reactions that occur while consuming the product. India's agricultural sector grows non-GM crops for both the poultry and food industry. Allowing this variety will be inviting a large amount of health issues for its livestock and citizens.

Importing this product would bring along with it problems for its farmers as the imported product would be much cheaper. This would result in a large amount of losses for the farmer.

Due the increasing emphasis on ethanol blending (this is a product that can be extracted from corn) in the country, farmers in India have recently started earning profits from growing the product. Import of corn from the US, would not only reduce profits for Indian farmers, but in addition would increase our import reliance and would have negative impact on our Balance of Payment.

Restricting the import of corn is essentially protecting the Indian agriculture sector and farmers from competition from cheap imports, health safety, adverse balance of payments, and fears of multinational control from US companies that could adversely influence the country's policy decisions.

❖ Soybeans: This product like corn is also grown from GM modified seeds, which are likely to have the same issues that are prevalent in the case of corn import. Besides this the Indian economy has been and is continuing to protect its farmers (primarily small, which are innumerable currently), and importing of the product would out price the Indian product out of the market.

Further India is an importer of soybean oil, and does not have the adequate infrastructure to crush and process raw products, thus increasing issues for the Indian economy. It is economically viable for the country to import the finished product (namely oil), rather than import seeds of the product that would lead to infrastructural issues with respect to the processing and extraction industries.

❖ Dairy products -milk powder: The disinclination to import this product harbors on religious sentiment. In India all animals are fed on a vegetarian diet, which may not be the case in the US. Any type of import of by products of animals would create a religious upheaval and would be a politically disastrous step. Dairy products like milk and ghee are not only used for consumption but are also used for various religious rituals. American livestock are fed animal derived protein such as 'blood meal', and 'meat scraps', which is completely unacceptable for the Indian population.

The laws in India are extremely strict in this regard. All imports entering India require a veterinary certificate from the exporting country stating that “animals have never been fed “ mammalian by-products.

Besides the above the Indian “dairy sector”, is home to a large number of small farmers who own extremely small holdings. Most of them own 2-3 cows and are a part of a larger cooperative like Amul, Vijaya and Nilgiri to name a few, any import of dairy products would completely out compete them from the market, leading to disaster and farmer suicides.

The Indian government is correctly concerned with the fact that importing of such products may lead to an epidemic among its cattle in the form of **Bovine Spongiform Encephalopathy (Mad Cow Disease)**, which has been proven to be linked to feeding the cattle with “animal derived protein”.

- ❖ Cotton: The primary reason is the same as in the above products namely protection of small farmers. Unrestricted import of the product is definitely a making in disaster, as it would lead to a crash in the price of cotton , adversely impacting the small farmers. Besides this product is part of the “Minimum Support Price” program that is actively in place for a number of agricultural products in India, primarily to help the farmer with assured price of the product, irrespective of the quantity or circumstances. This encourages the farmer to undertake production with a free mind, not worrying about the end price of the product.
- ❖ Ethanol: Here again the aim is to protect the local farmer population from cheaper priced products. India has embarked on “Ethanol Blending” projects, that have acted as an additional demand for ‘sugarcane growing’ farmers. There has been a huge investment in recent years in this sector, the amount exceeding Rs 40,000/ crores. Most of it to build ethanol production capacity. Any imports in this sector would put in danger not only the farmers but also the local distilleries who have invested large sums of money in enhancing their extraction capacity.

## **9. Solutions to the issues at hand**

America is an important country to keep up trade relations with. It has been supportive of India’s democratic practices as well as an important country for India’s growing export potential. It is one of the largest and most important destination of India’s service exports as well as it being an integral provider for India’s defence sector. The continuous engagement with the American economy on trade issues will help both the largest democracies in the world to become mutually beneficial for each other.

Some possible solutions are :

- Phased tariff reduction on select outlier commodities- to accommodate both the countries interest there could be a phased reduction on certain commodities like whiskey, almonds, pistachios, apples, automobiles and their parts and machinery.
- Increased R&D in the agricultural sector to enhance productivity.
- Working towards integrating the Indian Agricultural sector in the global supply chain.

There are certain products that are exempt from the tax imposition regulations; these are;

- Pharmaceuticals
- Semiconductors
- Energy products(crude oil, natural gas)
- Critical minerals

The above are important Indian export sectors. The US has exempted the above from penal tariff rates as they are important for economic stability, and critical supply chains. This is a clear acknowledgement of the US economies dependence on the world.

## **10. Conclusion**

The current policy measures with respect to recent rounds of imposition of tariff on Indian products by the US economy has disrupted the supply chain and has resulted in Balance of Payments issues for both the economies. The high tariff regime that America has imposed on India, possibly for it's role in the Russia -Ukraine crisis has disrupted the earlier equation that India had with the US. Both of them are the worlds greatest democracies and they need each other in various areas of economic, political and social integration. The opening up of the Indian agricultural sector would spell disaster to the marginal farmer in India. Indian diplomacy needs to work around this sector and open up some products where the impact is positive and not adverse for the Indian producers and neither on the Indian exchequer. Bilateral trade agreements and looking for other markets as well as expanding India's presence in the global supply chain could be a possible viable alternative.

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