FINANCE & BUSINESS DEVELOPMENT

AN ANALYSIS OF THE IMPACT OF **US TARIFFS** ON **INDIA'S EXPORTS**

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Executive summary

The imposition of new tariffs by the US administration on Indian imports represents a significant inflection point in the bilateral relationship. This action is not an isolated event but rather a culmination of long-standing trade frictions, amplified by a new and complex geopolitical dimension. While India's domestic-consumption-driven economy may absorb the aggregate macroeconomic shock, the burden is disproportionately concentrated in labour-intensive, high-value export sectors such as textiles and apparel, gems and jewellery, and seafood. This targeted pressure poses a direct threat to the competitiveness of these industries and the livelihoods of millions of workers.

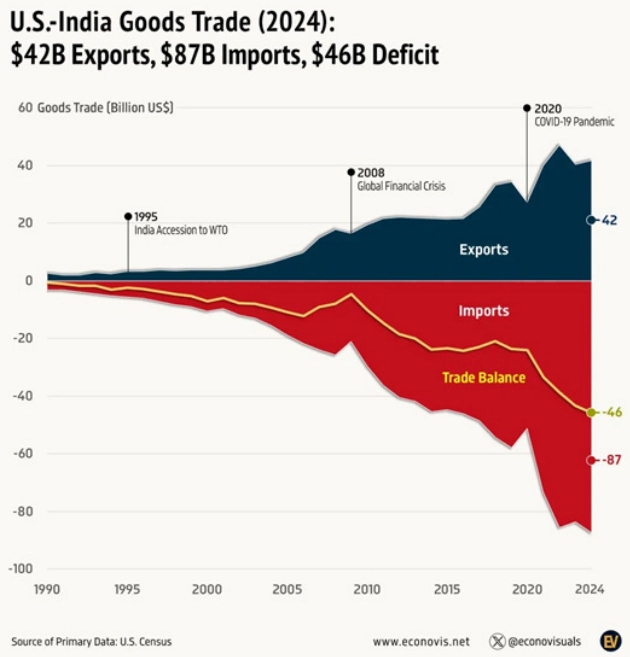
The central premise of this report is that the latest tariffs signify a fundamental collision between the US's transactional approach to geopolitics and India's steadfast policy of strategic autonomy. The US is weaponizing trade to achieve both economic objectives—specifically, greater market access—and foreign policy goals, primarily to pressure Russia. In doing so, it risks undermining a strategic partnership that has been painstakingly built over two decades. For Indian businesses, the tariffs present a dual challenge: an immediate threat to market share and profitability, but also a long-term opportunity to accelerate trade diversification and reinforce their position in global value chains beyond the US market. The resolution of this dispute will hinge on the ability of both nations to balance their competing economic and geopolitical priorities.

1. Background of India-US trade and the dispute

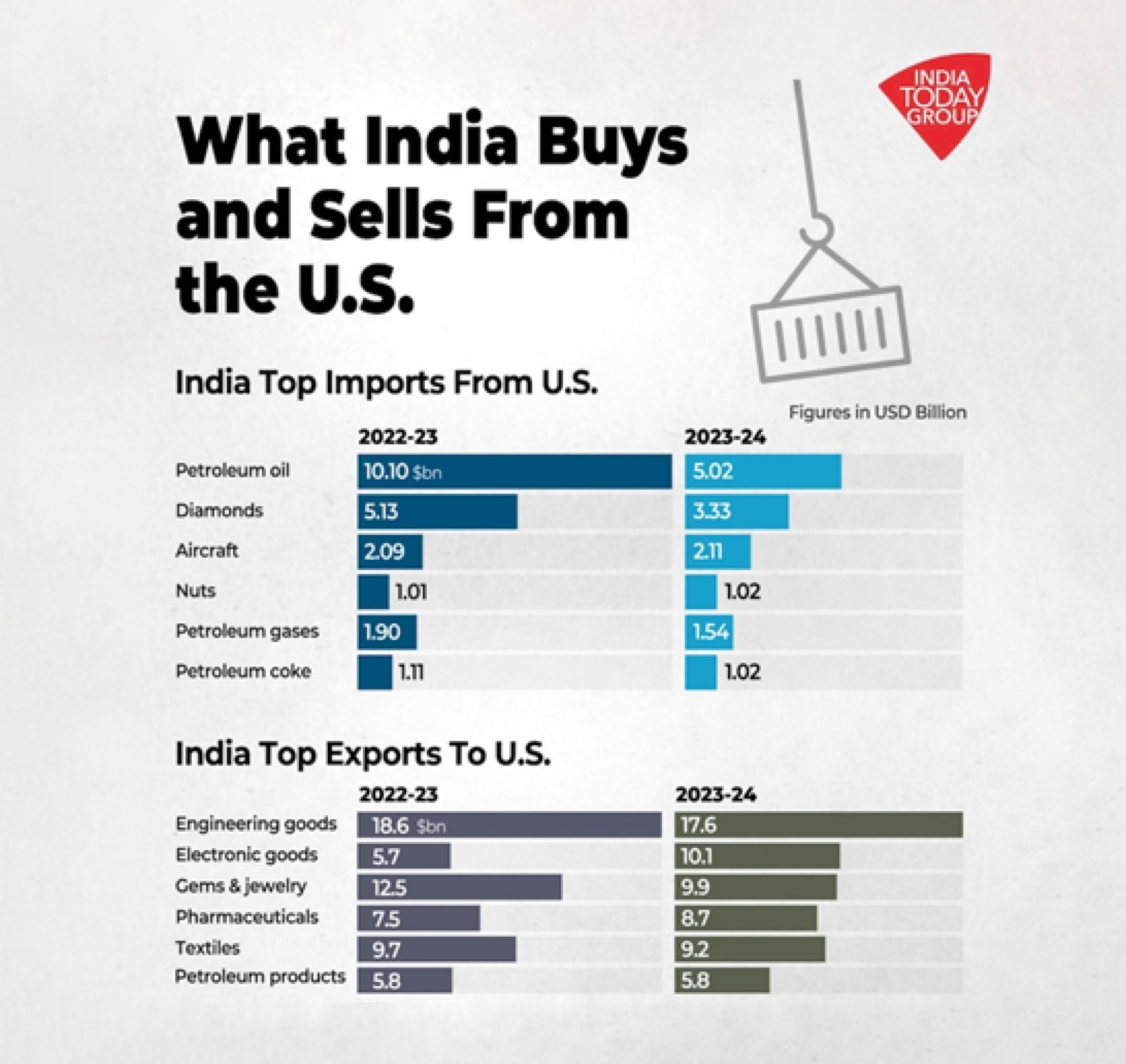
Over the past decade, US-India trade has expanded rapidly, growing from US$66.8bn in 2014 to nearly US$212bn in 2024, making it a key pillar of their strategic partnership. Services trade has been more dynamic, with US exports to India reaching US$41.8bn and imports US$41.6bn in 2024, leaving the US with a small surplus—an improvement from a deficit in 2023.

Metric	2022	2023	2024
Total (exports + imports) bilateral trade (goods + services)	~192.0	~196.0	~212.3
US exports to India (goods)	47.0	40.3	41.5
US imports from India (goods)	86.0	83.5	87.3
US goods trade deficit with India	~39.0	43.2	45.8
India-US total services trade (exports + imports)	58.0	81.7	83.4

US-India bilateral trade in goods & services, 2022-2024 (in US$bn)



However, goods trade remains imbalanced: India's surplus rose from US$24bn in 2014 to US$45.8bn in 2024. This persistent deficit underpins US concerns about fairness, driving tariff disputes and calls for greater reciprocal market access in India. In 2024, US-India merchandise trade was marked by US exports of fuels, machinery, and equipment, while India's high-value, labour-intensive exports—such as textiles, pharmaceuticals, gems, and auto parts—dominated and now face the greatest impact from new tariffs.



The recent US tariffs on India represent an escalation of long-standing trade frictions rooted in disputes over tariffs and market access. A key precursor was the termination of India's Generalized System of Preferences (GSP) status in June 2019, which had allowed duty-free access for over US$5.6bn of Indian exports. The US justified this move by citing India's failure to provide “equitable and reasonable access” to its markets, particularly restrictions on agriculture, dairy, and price controls on medical devices. Although the immediate impact on India's export value was marginal, the withdrawal set a precedent for the US using trade tools to exert pressure.

Central to current tensions are barriers flagged by the US Trade Representative (USTR). India's average MFN tariff rate of 17.0%—the highest among major economies—remains a major concern, with steep duties on automobiles, motorcycles, and alcohol. Non-tariff barriers also complicate trade, including strict sanitary and phytosanitary (SPS) standards for dairy and grains, intellectual property concerns (patent revocations, piracy, weak trade secret protection), and digital restrictions such as RBI's data localization rules and India's equalization levy " on digital services provided by non-Indian residents.

The situation mirrors the late 1980s “Super 301” episode, when US pressure forced India to open its markets. Today's tariffs similarly reflect the US' enduring strategy to secure greater access, stronger IPR protections, and fewer trade barriers.

2. The imposition of new tariffs: rationale and structure

The latest tariffs are a complex, multi-layered action that blends economic and geopolitical motivations. The new measures go beyond traditional trade disputes by explicitly linking economic policy to a foreign policy objective. The US has imposed a steep, two-part tariff on Indian imports.

- **The 25% "Reciprocal Tariff":** Effective August 7, 2025, a 25% "reciprocal" tariff was imposed on certain Indian exports to the US. This was announced to address the US trade deficit and India's high tariffs on US goods.
- **The 25% Russian Oil Tariff:** A second, additional 25% levy, effective August 27, 2025, was announced as a punitive measure specifically in response to India's continued imports of Russian oil. This levy, combined with the first tariff, brings the total duty on a broad range of Indian goods to a substantial 50%. This makes India face the highest tariff rate among Asian exporters to the US.

Country	Tariff rate
India	50%
Vietnam	20%
Bangladesh	18%
Indonesia	19%

Country	Tariff rate
Malaysia	19%
Philippines	19%
Japan	15%

US tariff rates on Asian exporters

3. Economic and commercial impact on India

The economic impact of the tariffs presents a dichotomy between a resilient macroeconomic outlook and severe, concentrated pain for key export sectors and the livelihoods that depend on them.

3.1. Aggregate economic impact: the macro vs micro dichotomy

At the macroeconomic level, the initial assessment from the Indian government and reputed thinktanks like the Indian Council for Research on International Economic Relations (ICRIER) is that the tariffs will not be a "catastrophe" for India's US$3.9trn economy. The tariffs are estimated to affect only 7.38% of India's total exports and a mere 1.56% of its GDP, a view supported by the fact that India's economy is largely driven by domestic consumption. However, this aggregate perspective masks a more troubling reality at the micro and sectoral levels. Analysts from financial institutions like Goldman Sachs, Nomura, and Fitch Ratings have warned that if the tariffs are sustained, they could pose a "moderate downside risk" to India's economic growth projections, potentially cutting up to 0.6 percentage points off the forecast.

Sector	Export value to US (in US$bn)	Competitive disadvantage	Key impact on Indian business & employment
Textiles & apparel	Accounts for a significant share of exports	Over 30% tariff disadvantage vs. rivals like Bangladesh and Vietnam	Potential for 40-50% drop in US orders and up to 100,000 job losses
Gems & jewellery	Over US$10bn	Indian products less competitive than those from Turkey, Vietnam, and Thailand	Entire industry could come to a standstill, with thousands of jobs at risk in Surat and Mumbai
Shrimp	India is the leading supplier	Total tariff burden could reach 58.26% vs Ecuador's 10%	Described as a "doomsday" scenario for the seafood industry, with projected 7-9% drop in export volume

Key Indian export sectors impacted by US tariffs

3.2. Sector-specific analysis: the most vulnerable industries

The burden of the tariffs is highly concentrated in labour-intensive and high-value industries where Indian products face stiff competition.

- **Textiles and apparel:** This sector is one of the hardest hit. The new 50% tariff creates a significant disadvantage of over 30 percentage points compared to competitors like Bangladesh (18%) and Vietnam (20%). Major hubs like Tirupur, a "knitwear capital," have already seen buyers pause or divert orders to countries with lower tariffs. This has led to concerns of a potential 40-50% drop in US-bound orders and the risk of up to 100,000 job losses in the short term.
- **Gems and jewellery:** The US is the single largest market for India's gems and jewellery, accounting for over US$10bn in exports and nearly 30% of the industry's total global trade. Half of India's cut and polished diamond exports are US-bound. The tariffs make Indian products less competitive than those from rivals in Turkey, Vietnam, and Thailand. The industry has warned that the tariffs could bring the sector to a standstill, putting thousands of jobs at risk in key hubs like Surat and Santacruz Electronics Export Processing Zone (SEEPZ), Mumbai.
- **Agriculture (shrimp):** India is the leading supplier of shrimp to the US. The new 50% tariff, when combined with existing anti-dumping and countervailing duties, could bring the total tariff burden to as high as 58.26%. This has been described by industry experts as a "doomsday" scenario, as it creates a significant disadvantage against Latin American producers like Ecuador, which faces much lower tariffs.
- **Leather and footwear:** The US market accounts for 20% of India's total leather exports, with footwear being the most affected category. A pair of shoes that previously faced a 5-8% duty may now face nearly 50% in tariffs, instantly wiping off the competitiveness that India had worked to build.

3.3. Broader economic threats

The tariffs' repercussions extend beyond direct export losses. Micro, Small, and Medium Enterprises (MSMEs), which account for a large share of exports in the affected sectors, are particularly vulnerable. Experts estimate that 200,000 to 300,000 jobs are at immediate risk in the textiles, gems, and jewellery sectors alone. The tariffs have created significant supply chain disruption, with US buyers already pressuring Indian exporters to absorb costs and a "wait-and-watch" approach now prevailing across the industry. Furthermore, the economic uncertainty has affected investor sentiment. Data from LSEG IBES shows that Indian companies have experienced the "steepest earnings downgrades in Asia" over the past two weeks, and India has tumbled from the "most-favoured to the least-preferred Asian equity market" in just two months.

4. Strategic responses and future outlook

In response to the tariffs, India has adopted a multi-pronged strategy that combines a firm diplomatic stance with proactive domestic and external market-oriented measures. This crisis may also serve as a catalyst for India's long-term strategic evolution.

4.1. Official and industry responses

- **Diplomatic and political response:** Indian external affairs minister, S. Jaishankar has defended the Russian oil purchases, stating they are driven by "market conditions" and are essential for the "energy security of 1.4bn people". He also called the tariffs "unjustified and unreasonable" and expressed perplexity at why India was being targeted when its oil purchases from the US have also increased. In Parliament, commerce and industry minister, Piyush Goyal stated that the government is studying the implications and will "take all necessary steps to safeguard the national interest".
- **Government measures:** The government is considering targeted relief measures for hard-hit sectors, such as sector-specific credit lines with relaxed collateral and reduced insurance premiums for MSMEs, rather than a broad loan guarantee scheme. These measures are intended to mitigate the impact on cash flows and profitability.
- **Industry actions:** Industry bodies like the Federation of Indian Export Organisations (FIEO) and the Gem & Jewellery Export Promotion Council (GJEPC) have requested government support, including a one-year moratorium on loan repayments, and are exploring alternative markets to sustain business.

4.2. Threats and opportunities for Indian businesses

The current crisis, while posing immediate threats, also presents long-term strategic opportunities for Indian businesses.

- **Threats:** The direct threats are clear: loss of competitiveness, order cancellations, and job losses. The postponement of the Bilateral Trade Agreement (BTA) negotiations with the US, which were intended to resolve these issues, adds to the uncertainty. A key risk is that US buyers may shift production to lower-tariff countries to maintain market access, shrinking India’s market share.

- **Opportunities:**
  - **Domestic market cushion: T**he strength of India's large domestic, consumption-driven economy provides a crucial cushion for some sectors that are not heavily export-dependent, such as oil, gas, cement, and telecom.
  - **Diversification imperative:** The tariffs may accelerate India's strategic push to diversify its export markets, reducing its reliance on the US India has already been actively negotiating and signing trade agreements with partners like the European Union, the United Kingdom, the UAE, and Australia. The crisis may also spur the exploration of a new trade channel with Russia, with a Russian embassy official noting, "If Indian good cannot go to US market, they can head to Russia".

4.3. The path forward and geopolitical ramifications

The future of the US-India trade relationship and its broader strategic partnership is now uncertain. The tariffs have stalled the BTA negotiations, as it has become politically difficult for the Modi government to make concessions on sensitive sectors like agriculture and dairy. The US is risking a critical strategic partnership in its effort to pressure India on foreign policy. The tariffs, intended to align India more closely with US objectives, may inadvertently "drive India towards greater alignment with Russia and China", undermining the US's own long-term Indo-Pacific strategy of using India as a counterweight to China. The use of trade as a tool for geopolitical leverage may thus prove counterproductive, reinforcing India's commitment to strategic autonomy.

The resolution of this dispute will depend on the ability of both nations to find a balance between their economic needs and geopolitical priorities. While the immediate economic impacts are severe and concentrated, the long-term consequences will be shaped by how India leverages this moment to accelerate its strategic shift towards greater self-reliance and market diversification.

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