

# US Tariffs on Indian Imports

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## US Tariffs on Indian Imports : Trade Pressure or Geopolitical Move?

### Context

The **United States** has imposed an **additional 25% tariff** on Indian imports, officially citing **India's purchases of Russian energy**. This raises the overall tariff to **50% — the highest for any country**. India has condemned the action as **"unfair, unjustified, and unreasonable."** Experts estimate the move could lower **India's GDP growth by over 0.5 percentage points annually**, making it a significant trade and diplomatic challenge.

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### Introduction

The imposition of higher tariffs is part of a broader US strategy under **Donald Trump** to pressure India into a trade framework that reduces the **US-India trade deficit**. While presented as a response to Russian energy imports, the underlying intent appears to be securing a **US-favourable trade deal** and reshaping trade relations towards what is termed **balanced trade**.

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### Reasons for the US Tariffs on India

- Officially linked to **India's energy imports from Russia**.
- Long-standing US perception of India as a **protectionist economy** with high trade and non-trade barriers.
- The US trade deficit with India, as India **exports more than it imports** from the US.
- Trump's goal of **balanced trade** rather than free trade, aiming for a **zero trade deficit** even though such equilibrium rarely occurs naturally.
- Desire to pressure India into opening its domestic market for greater **US export penetration**.

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## Mechanism of Tariffs in Reducing Trade Deficit

- A **tariff** acts as a tax on imported goods, making them costlier for domestic consumers.
- A **50% tariff** makes Indian goods significantly more expensive in the US, reducing demand.
- US buyers may switch to **cheaper imports from other countries** or reduce consumption altogether.
- Declining Indian imports into the US, while US exports to India remain steady, narrows the trade deficit.

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## Tariffs as a Negotiating Tool

- Intended to compel India to **open domestic markets** for US goods.
- Encouragement of **Indian purchases of US products**, including defence equipment and crude oil, directly helping to reduce the trade deficit.

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## Impact on India's Economy and Employment

- Tariffs disrupt **supply chains**, affecting companies and workers more than governments.
- Labour-intensive sectors such as **textiles, carpets, food products** face risk of losing contracts to untariffed competitors, causing **job losses**.
- The employment impact is expected to be more severe than the overall GDP decline.

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## Economic Exposure

- Only **20% of India's goods exports** (around **2% of GDP**) go to the US, limiting the **overall macroeconomic impact**.

- However, certain sectors — especially **gems and jewellery, textiles, apparel, chemicals** — are disproportionately dependent on US markets, with **\$8 billion in exports at risk**.
  - **Less affected sectors** include IT services and pharmaceuticals, while **excluded goods** are steel, aluminium, semiconductors, and Apple's large-scale manufacturing.
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## Why Retaliatory Tariffs May Backfire

- Higher tariffs on US imports would **raise costs for Indian consumers**.
  - Could **reduce US exports to India**, potentially widening the trade deficit and triggering further US tariff action.
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## India's Strategic Response

Short-term:

- Engage in **trade negotiations** to limit losses.

Long-term:

- Undertake **structural reforms** in manufacturing, skill development, infrastructure, and logistics.
  - Improve **ease of doing business** and introduce **tax incentives**.
  - Formulate a **national human resource policy** and utilise India's **young demographic advantage**.
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## Conclusion

The US tariff hike reflects a blend of geopolitical pressure and economic strategy aimed at altering India's trade behaviour. While the **direct macroeconomic hit may be contained**, certain export sectors face disproportionate risks. A balanced response combining **diplomatic engagement** with **domestic economic strengthening** will be essential for safeguarding India's trade interests and preventing long-term dependence or vulnerability.