

INDIA-U.S. RELATIONS IN THE WAKE OF U.S. TARIFFS ON INDIA: ECONOMIC AND GEOPOLITICAL IMPLICATIONS

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Abstract

The United States' imposition of a 50% tariff on Indian goods, effective August 27, 2025, represents a significant shift in the bilateral relationship between the two nations, driven by a combination of economic protectionism and geopolitical motivations. This tariff, comprising a 25% reciprocal duty and an additional 25% penalty linked to India's continued imports of Russian oil, threatens India's \$87 billion export market to the U.S., with profound implications for key industries such as textiles, gems, and jewellery. Beyond economics, the tariffs strain a strategic partnership critical to countering China's influence in the Indo-Pacific region, raising questions about the future of U.S.-India relations. This paper examines the economic vulnerabilities created by the tariffs, the geopolitical consequences for India's global positioning, and the strategic responses India has adopted to mitigate the crisis. Drawing on trade data, policy statements, expert analyses, and economic projections, the study explores how India can navigate these challenges while maintaining its economic stability and strategic autonomy. Recommendations are provided for both nations to address the crisis, restore trust, and preserve a partnership vital to global stability in an increasingly polarized world.

1. Introduction

The relationship between the United States and India has emerged as a cornerstone of global geopolitics over the past two

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decades, driven by shared strategic interests in countering China's growing influence and fostering stability in the Indo-Pacific region. With bilateral trade reaching \$190 billion in 2024, the economic ties between the two nations have complemented their deepening defence and diplomatic cooperation, including India's role in the Quad (comprising the U.S., India, Japan, and Australia). However, the U.S. decision to impose a 50% tariff on Indian goods, announced by President Donald Trump and effective August 27, 2025, has introduced unprecedented strain into this partnership. The tariff, implemented in two phases—a 25% reciprocal duty starting August 7, 2025, to address India's trade barriers, and an additional 25% penalty tied to India's reliance on Russian oil imports amid the Russia-Ukraine conflict—targets 55% of India's \$87 billion exports to the U.S. Justified under U.S. trade laws, specifically Sections 232 and 301, these measures threaten India's economic stability, particularly in labour-intensive sectors, while raising concerns about the long-term viability of the strategic alignment between the two nations. The tariffs also challenge the global trade order, as they appear to violate World Trade Organization (WTO) norms, prompting questions about fairness and consistency in U.S. trade policy. This paper seeks to analyze the economic and geopolitical impacts of the tariffs on India, evaluate the country's response strategies, and propose actionable recommendations to mitigate the crisis while preserving the U.S.-India partnership. By examining trade data, policy statements, and expert perspectives, the study aims to provide a comprehensive understanding of the challenges and opportunities ahead.

2. Background: U.S. Tariffs on India

The U.S. tariffs on Indian goods were introduced in two distinct phases, each reflecting a blend of economic and geopolitical objectives. The first phase, a 25% reciprocal tariff effective August 7, 2025, was designed to address the \$45.7 billion U.S. trade deficit with India in 2024, which the U.S. attributes to India's high tariffs on American goods, such as 150% duties on

whiskey and 100% on automobiles, as well as non-tariff barriers like agricultural subsidies and restrictive sanitary measures. The U.S. argues that these barriers disadvantage American exporters, justifying action under Section 301 of the Trade Act of 1974, which allows retaliatory measures against unfair trade practices. The second phase, an additional 25% penalty tariff effective August 27, 2025, targets India's 39% reliance on Russian oil imports, a policy the U.S. frames as undermining efforts to isolate Russia economically over the ongoing Russia-Ukraine conflict. This penalty is enacted under Section 232, which cites national security concerns, and the International Emergency Economic Powers Act, though its legal basis has been contested by trade experts who argue it oversteps international norms. The combined 50% tariff rate is among the highest imposed by the U.S., comparable to tariffs on Brazil and China but exceeding those on Vietnam (20%) and Japan (15%). While exemptions have been granted for critical sectors like pharmaceuticals, semiconductors, and energy resources to safeguard U.S. supply chain interests, industries such as textiles, gems, jewelry, leather, and chemicals face significant exposure, as they constitute a substantial portion of India's exports to the U.S. Notably, the tariffs breach WTO principles, particularly the Most Favored Nation clause, as they disproportionately target India compared to other nations, such as China, which also rely heavily on Russian oil but face lower tariffs. This selective application has fueled perceptions of unfairness in India, complicating the bilateral relationship and raising questions about the broader implications for global trade governance.

3. Economic Impacts on India

The imposition of a 50% tariff on 55% of India's \$87 billion exports to the U.S. poses significant challenges to the country's economy, which is the world's fifth-largest and projected to grow at 6.4% in 2026. The tariffs are expected to reduce India's export revenue by \$36-60 billion annually, with labour-intensive sectors like textiles, gems, and jewellery, which account for nearly a third of India's U.S. exports, facing severe disruptions.

Economists warn that the tariffs could shave 0.3-1.0% off India's GDP growth in 2025-26, potentially pushing growth below 6%, a critical threshold for sustaining employment and investment. The Reserve Bank of India notes that India's domestic-driven economy, with exports constituting 20% of GDP, provides some resilience, but small and medium enterprises (SMEs), which form the backbone of India's export ecosystem, are particularly vulnerable due to their limited resources and inability to absorb cost increases or pivot to new markets quickly. Financial markets have also reacted sharply, with declines in the Sensex and Nifty indices following the tariff announcements, alongside foreign institutional investor outflows and a weakening rupee, which raises concerns about inflationary pressures. However, sectors exempted from the tariffs, such as pharmaceuticals and information technology, have attracted renewed investor interest, mitigating some of the broader market losses. Despite these challenges, India's diversified export markets, including ASEAN and the UK, and its robust domestic demand, bolstered by favourable agricultural conditions, offer a buffer against the economic fallout. The tariffs also have ripple effects on global supply chains, as higher costs for U.S. consumers reduce demand for Indian goods, undermining India's role as a manufacturing alternative to China. While the economic impact is severe, India's economic resilience and strategic diversification efforts provide a foundation for mitigating the worst effects of the tariffs, though sustained efforts will be needed to protect vulnerable industries and maintain growth momentum.

4. Geopolitical Ramifications

The U.S. tariffs on India have far-reaching implications for the bilateral relationship, threatening two decades of strategic convergence built on shared interests in countering China and promoting stability in the Indo-Pacific. In India, the tariffs are perceived as a betrayal of the strategic partnership, particularly given the U.S.'s lenient approach toward China, the largest buyer of Russian oil, which faces lower tariffs. This disparity

has fueled perceptions of unfair treatment, eroding trust and prompting India to reassess its geopolitical alignments. In response, India has signalled plans to increase Russian oil imports by 10-20% in September 2025, while Prime Minister Narendra Modi's upcoming visit to China for the Shanghai Cooperation Organisation summit suggests a potential pivot toward closer ties with Beijing. The possibility of India-Russia-China trilateral talks further complicates U.S. strategic interests in the region. The tariffs have also strengthened India's engagement with BRICS, which condemned U.S. actions as "unilateral coercive measures" at the 2025 BRICS Summit. Initiatives like BRICS Pay and China's Cross-Border Interbank Payment System aim to reduce reliance on the U.S. dollar, challenging American economic hegemony. On the defense front, India's decision to pause procurement of U.S. weapons, including Stryker vehicles and Javelin missiles, signals discontent and risks weakening cooperation in joint exercises and the Quad framework. The tariffs underscore India's commitment to strategic autonomy, as articulated by External Affairs Minister S. Jaishankar, who described U.S. demands to halt Russian oil purchases as "unjustified." This stance reflects India's broader effort to balance its relationships with major powers while resisting external pressure. The tariffs also highlight a U.S. shift toward protectionism, evident in similar measures against Brazil and the EU, raising concerns about a fragmented global trade system and the erosion of multilateral norms, which could further complicate India's strategic calculations in a polarized world.

5. India's Response Strategies

India has adopted a multifaceted approach to mitigate the impact of the U.S. tariffs, balancing diplomatic engagement with economic resilience. High-level talks with the U.S., scheduled for August 25, 2025, in New Delhi, aim to secure a bilateral trade agreement by fall 2025, though India remains cautious about concessions in sensitive sectors like agriculture due to domestic political pressures. To offset export losses, India is

diversifying its trade partnerships, leveraging a recent free trade agreement with the UK (May 2025) and ongoing negotiations with the EU, while exploring increased market access with China to reduce its \$118 billion trade deficit with Beijing. ASEAN and BRICS nations are also key targets for expanding trade ties. Domestically, the government is supporting SMEs through export promotion schemes, trade financing, and a proposed \$12 billion tax relief package to enhance competitiveness. Prime Minister Modi's "Vocal for Local" campaign encourages domestic consumption to bolster demand, while planned reforms to the goods and services tax aim to stimulate economic activity. India has adopted a non-retaliatory stance, avoiding immediate counter-tariffs to preserve negotiation space, though domestic voices, including opposition leaders, have urged limited retaliation, such as higher duties on U.S. goods like cotton. On the energy front, India defends its Russian oil imports as essential for energy security and global price stability, noting that Western nations, including the U.S., continue to trade with Russia in sectors like uranium. These imports have saved India \$17 billion since the Russia-Ukraine conflict began, a benefit now at risk due to U.S. pressure. India's response reflects a strategic blend of diplomacy, economic diversification, and domestic resilience, aimed at mitigating the tariffs' impact while maintaining its autonomy in global affairs.

6. Analysis and Discussion

The U.S. tariffs on India reflect a confluence of economic protectionism and geopolitical strategy, aligning with President Trump's "America First" doctrine, which prioritizes reducing trade deficits and asserting U.S. influence through unpredictable actions. However, targeting India, a key strategic partner, risks counterproductive outcomes, particularly as the U.S. seeks to counter China's influence in the Indo-Pacific. The justification for the tariffs—addressing the U.S. trade deficit and isolating Russia economically—overlooks India's critical energy needs and the inconsistency of applying lower tariffs to China, which purchases significantly more Russian oil. India's response,

characterized by a non-retaliatory stance and efforts to diversify trade, demonstrates strategic agility but faces constraints. The pause in U.S. arms purchases and warming ties with China and Russia signal a hedging strategy, reflecting India's frustration with perceived U.S. hypocrisy. The tariffs expose the fragility of U.S.-India relations when economic and geopolitical priorities diverge, particularly as India's growing trade with China (\$136 billion in 2024) and reliance on Chinese imports (16% of total imports) complicate its strategic calculus. The WTO's paralyzed Appellate Body limits India's ability to challenge the tariffs multilaterally, underscoring the need for domestic resilience and alternative partnerships. The tariffs also undermine U.S. strategic goals by pushing India toward Beijing, weakening the Quad and broader Indo-Pacific strategy. This misalignment highlights the need for both nations to reassess their approaches to ensure the partnership remains robust in the face of global challenges.

7. Recommendations

To navigate the crisis, India should prioritize diversifying its trade partnerships by accelerating agreements with ASEAN, China, and BRICS nations to reduce dependence on the U.S. market. Strengthening domestic resilience through investments in SME competitiveness, supply chain upgrades, and manufacturing capacity will help absorb export shocks and sustain economic growth. India should also advocate for reforms to the WTO's dispute resolution mechanism to counter unilateral trade measures and protect its interests in the global trade system. Continued engagement with the U.S. is critical to preserve defense cooperation and the Quad framework, with India offering limited concessions in non-sensitive sectors to facilitate dialogue. Leveraging BRICS platforms to counter U.S. economic pressure and promote alternative financial systems like BRICS Pay can enhance India's strategic autonomy. For the U.S., reconsidering the strategic cost of the tariffs is essential. A negotiated trade deal capping tariffs at 15%, as offered to Japan and the EU, could restore trust and align with mutual interests.

Recognizing India's energy security needs and applying tariff policies consistently across Russian oil buyers would reduce perceptions of unfairness and strengthen bilateral ties.

8. Conclusion

The U.S. tariffs on India, effective August 27, 2025, represent a critical challenge to a partnership vital to global stability, threatening India's economic growth and the strategic alignment between the two nations. The tariffs, targeting 55% of India's \$87 billion exports to the U.S., risk significant losses in labour-intensive sectors and could reduce GDP growth by up to 1% in 2025-26. However, India's diversified trade base, robust domestic demand, and strategic responses provide a foundation for resilience. Geopolitically, the tariffs risk pushing India toward closer ties with Russia and China, undermining U.S. objectives in the Indo-Pacific and weakening frameworks like the Quad. India's balanced approach—combining diplomacy, trade diversification, and domestic support—reflects its commitment to strategic autonomy while navigating external pressures. The upcoming trade talks on August 25, 2025, will be pivotal in determining whether the U.S. and India can restore trust and rebuild their partnership or face a prolonged decline in relations. A mutually beneficial trade agreement, coupled with sustained strategic dialogue, is essential to preserve this critical relationship in an increasingly polarized global landscape, ensuring both nations can address shared challenges and maintain stability in the Indo-Pacific and beyond.

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