

India-Us Tariff Dispute and Trade Relation: Economy

The U.S. has imposed a 25% tariff on Indian exports citing India's trade surplus and ties with Russia, straining bilateral trade relations. This move threatens India's labour-intensive export sectors and raises concerns over global trade stability and WTO norms.

India-U.S. Tariff Dispute and Trade Relations (2025)

President Donald Trump has imposed a 25% tariff along with additional penalties on Indian exports. The U.S. cited India's Strategic ties with Russia (particularly in energy and defence). High trade barriers that restrict U.S. exports. This move marks a significant downturn in India-U.S. trade relations, which had otherwise seen growing bilateral engagement.

India-U.S. Trade Overview (2021-2025)

1. Top Trading Partner

The United States has been India's largest trading partner over the last few years. In FY 2024-25, total bilateral trade stood at \$186 billion.

1. Trade Surplus in India's Favour:
2. Exports to U.S.: \$86.5 billion
3. Imports from U.S.: \$45.3 billion
4. Surplus: \$41.2 billion in 2024-25
5. Up from \$35.3 billion in 2023-24
6. \$27.7 billion in 2022-23

2. Services Trade

India maintains a \$3.2 billion surplus in services trade with the U.S., driven by IT, financial services, and consulting. Key Traded Commodities

India's Major Exports to U.S.

1. Pharmaceutical formulations and biologicals
2. Telecom instruments and electronics
3. Petroleum products
4. Textiles and apparel
5. Gems and jewellery
6. Auto components and machinery
7. Leather and handicrafts (labour-intensive sectors)

India's Major Imports from U.S.

1. Crude oil and LNG

2. Coal and petroleum products
3. Capital goods and machinery
4. Aircraft parts
5. Gold and precious metals

Impact of U.S. Tariffs on Indian Exports

Cost Competitiveness Decline

The 25% tariff will make Indian goods costlier in the U.S. market. It will reduce price competitiveness, especially in sectors where cost margins are slim.

Sectoral Impact – Labour-Intensive Sectors at Risk

1. Pharmaceuticals – particularly generic drugs
2. Textiles & Garments
3. Leather and Footwear
4. Handicrafts
5. Gems and Jewellery
6. These industries employ millions and are critical to India's export earnings and rural employment.

Relative Disadvantage Compared to Competitors

India now faces 25–38% duty on key exports.

In comparison,

1. Vietnam: ~20% tariff
2. Bangladesh: ~35%
3. Thailand: ~36%

These competitors could undercut Indian goods in the U.S. market, shifting contracts away from India.

Reasons Cited by the U.S. for Tariff Imposition

1. Trade Deficit with India

The U.S. views the large trade surplus India enjoys as a trade imbalance. India's high tariffs and non-tariff barriers are seen as limiting U.S. access to the Indian market.

2. High Tariff and Regulatory Barriers in India

Persistent U.S. concerns about India's tariff structure, import duties, and local content rules. Complaints of complex regulatory approvals and market access issues in sectors like dairy, medical devices, and e-commerce.

3. Geopolitical Factors – India–Russia Relations

U.S. unease over India's continued energy imports from Russia and defence purchases (e.g., S-400 system). Perception that India is not fully aligned with Western sanctions regime post-Ukraine conflict.

4. Lack of Progress in Bilateral Trade Talks

Long-pending negotiations on a bilateral trade agreement or mini trade deal have made little headway. Issues include digital services tax, price caps on medical devices, and agricultural imports.

India's Official Response

1. Commerce Ministry Statement

India is assessing the full economic impact of the U.S. decision. It remains committed to achieving a balanced and mutually beneficial trade relationship.

2. Diplomatic Caution

India has avoided direct confrontation, signaling its preference for dialogue over retaliation.

3. Protection of National Interest

Government will take all necessary measures to protect the interests of Indian exporters, especially in vulnerable sectors.

Broader Global Trade Implications of U.S. Tariff Action

1. Trade Uncertainty and Disruption

Sudden tariff hikes disrupt existing global supply chains. Businesses face increased uncertainty in investment and sourcing decisions.

2. Shift in Global Export Hubs

Companies may relocate production to lower-tariff jurisdictions (e.g., Vietnam, Mexico, Thailand) to avoid punitive duties.

3. Undermining WTO Norms

Unilateral tariffs violate WTO principles of non-discrimination and most-favoured-nation treatment. Encourages a retaliatory cycle, weakening the multilateral trade regime.

4. Global Trade Contraction

Higher tariffs lead to reduced demand for exports, which may affect export-driven developing economies like India.

5. Financial Market Volatility

Trade tensions often result in Currency fluctuations, Commodity price swings, Stock market corrections, especially in emerging markets

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