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"The Impact of Trump's Tariff Increases on India's International Trade and Strategic Policy Responses"

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The Impact of Trump's Tariff Increases on India's International Trade and Strategic Policy Responses

Abstract

The April 2025 U.S. tariffs, including a 27% levy on Indian exports, mark a pivotal shift in global trade dynamics. India, with $78 billion in annual U.S. trade, faces acute sectoral disruptions in engineering goods, electronics, and jewellery, though pharmaceuticals and textiles retain resilience. Beyond immediate losses, risks include trade diversion, market flooding, and macroeconomic strain. This issue brief argues India must eschew retaliatory protectionism, instead leveraging diplomacy, WTO mechanisms, and its Indo-Pacific alignment to secure tariff relief. Complementary domestic reforms such as expanding PLI schemes, reducing logistics costs, and diversifying FTAs can transform this shock into a catalyst for long-term competitiveness.

Introduction

On April 2, 2025, U.S. President Donald Trump unveiled a sweeping package of reciprocal tariffs targeting more than 50 countries, imposing a 27% levy on Indian goods, a move that triggered global market tremors and raised the specter of a renewed trade war (The Hindu Bureau, 2025). Ostensibly intended to correct perceived trade asymmetries, the tariff surge also reflects deeper protectionist currents in U.S. trade policy. For India, which sends nearly 18% of its exports to the United States, the implications are multi-layered. While India's economy is more domestically driven than export-reliant nations like Vietnam or China, the sheer size of its trade relationship with the U.S. valued at over $78 billion, makes the shock economically and politically consequential (ClearTax, 2025). Figure 1 illustrates India's diversified export portfolio, highlighting the U.S. as its single largest export destination.

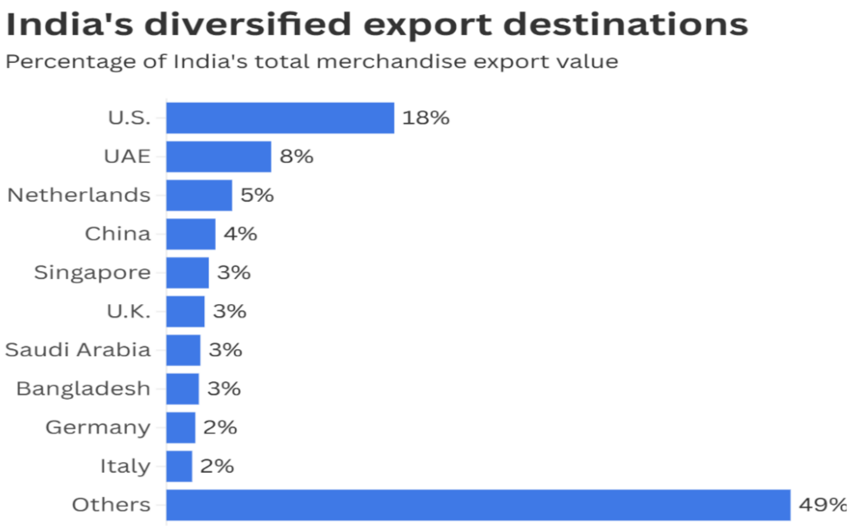

Figure 1, Source- Ministry of Commerce and Industry

This paper examines the sectoral and macroeconomic ramifications of the new U.S. tariffs, analyses the legal and institutional dimensions of potential Indian responses, and articulates a strategic argument: that India should avoid reactive protectionism and instead leverage its geopolitical capital and domestic market potential to secure long-term trade advantages. Drawing from legal scholarship, economic theory, and contemporary trade data, the paper advances a nuanced approach that integrates diplomacy, institutional reform, and strategic industry adaptation.

Sectoral Impact of U.S. Tariffs on Indian Exports

Key Affected Sectors

The 27% tariff directly affects several core sectors of India's export basket:

- Engineering Goods: Representing 22% of exports to the U.S., this sector, particularly steel, industrial machinery, and electrical equipment, is vulnerable to demand compression as U.S. buyers reassess cost structures (ClearTax, 2025). Although

India's domestic infrastructure needs may absorb some production surplus, reduced foreign earnings and job losses are probable.

- Electronics: Exports in this category, worth $10.05 billion, are susceptible not just to price competitiveness issues but to capital flight, as foreign firms (e.g., Apple, Foxconn) reconsider scaling Indian operations. With Vietnam and Mexico offering lower tariff routes, India risks losing its strategic "China-plus-one" advantage unless it addresses systemic bottlenecks (CNBC, 2025).
- Gems and Jewellery: High-value but margin-sensitive, this sector could experience sharp downturns, particularly in non-luxury segments. As the U.S. consumer market slows amid tariff-induced inflation, discretionary spending on imported goods may decline.

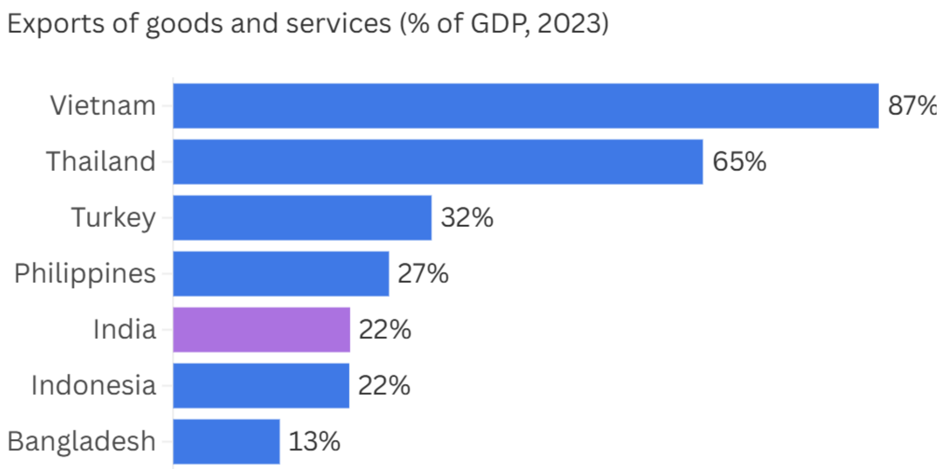

Figure 2, Source - World Bank

As seen in Fig. 2, Compared to regional economies like Vietnam and Thailand, India’s export sector accounts for a smaller share of GDP. This underscores the structural limitations of India’s export base and the opportunity to diversify and scale with targeted interventions.

Resilient and Strategic Sectors

- Pharmaceuticals: With exports of $8 billion and a crucial role in supplying generic medicines to the U.S., this sector has been spared from the new tariffs, reflecting its strategic indispensability (The Hindu Bureau, 2025). This creates an opportunity for India to deepen pharmaceutical trade ties and push for biosimilars and patented drug exports.
- Textiles and Apparel: Surprisingly, Indian textile exports may benefit from a relative competitive advantage over Bangladesh and Vietnam, which now face tariffs of 37% and 46%, respectively (ClearTax, 2025). However, India must capitalize on this only if it improves quality, compliance, and speed-to-market logistics.

Macroeconomic Implications and Geoeconomic Trends

Trade Diversion and Market Flooding

The introduction of steep tariffs against China (34%), Japan (24%), and the EU (20%) sets the stage for global trade diversion. India risks becoming a dumping ground for redirected Chinese steel and consumer electronics. While cheaper imports may appear beneficial for consumers, they threaten the nascent gains of India's Make in India program and PLI-driven industrial base. Without calibrated import controls or anti-dumping measures, India may face deindustrialization pressures in key sectors.

Global Supply Chain Realignments

The tariffs reinforce an emerging global trend toward "friendshoring", the relocation of manufacturing to politically aligned nations. India, given its democratic institutions, skilled labour pool, and improving infrastructure, stands to gain. However, the success of this pivot depends on its ability to offer predictable regulation, reduced compliance burdens, and logistical efficiency. Absent these reforms, friendshoring may bypass India in favour of ASEAN economies with better World Bank Ease of Doing Business rankings.

Economic Growth and Currency Risks

According to HSBC projections, India may see a 0.5% dip in GDP growth due to the export slowdown and investor hesitation in key sectors (CNBC, 2025). Moreover, currency volatility, induced by capital outflows from affected sectors, could inflate import costs and widen the current account deficit, further straining macroeconomic stability.

Strategic Policy Responses by the Indian Government

Leveraging Trade Diplomacy: Asymmetric Concessions

Rather than resorting to retaliatory tariffs, India should adopt a diplomatic strategy of asymmetric concessions, offering the U.S. access to non-sensitive sectors (e.g., IT services, pharmaceuticals) in exchange for tariff reductions on labour-intensive exports. The ongoing Bilateral Trade Agreement (BTA) negotiations provide a timely opportunity for structured give-and-take.

India's geopolitical alignment with the U.S. on Indo-Pacific security and counter-China balancing gives it additional leverage. By positioning itself as a trusted partner in sensitive global value chains such as semiconductors, defence manufacturing, and EV components, India can argue for preferential treatment, particularly in tariff-sensitive areas like engineering goods and textiles.

Legal Recourse through the WTO

From a legal standpoint, the tariffs may violate Article I of the GATT (Most-Favored-Nation principle), unless defensible under the rarely accepted national security exception of Article XXI (Chaisse & Chakraborty, 2022). India could file a dispute at the WTO Dispute Settlement Body (DSB), not only to seek redress but also to affirm its commitment to multilateral norms.

The previous protectionist moves by the U.S. (e.g., Smoot-Hawley Act of 1930) triggered global retaliation and prolonged economic downturns (Irwin, 2017). A WTO case allows India to frame the tariffs as harmful to global trade architecture, isolating the U.S. diplomatically.

Domestic Reforms for Export Competitiveness

Domestic Reforms for Enhancing Export Competitiveness

India's ability to negotiate from a position of strength depends on its domestic competitiveness. The structural reforms undertaken in response to this tariff shock should be geared towards increasing export efficiency, reducing costs, and future-proofing supply chains.

Expansion of the Production-Linked Incentive (PLI) Scheme

The PLI scheme has thus far catalysed investments in electronics and pharmaceuticals. It must now be expanded to include capital-intensive and globally strategic sectors such as:

- Semiconductors and Chip Packaging: In light of the U.S. CHIPS Act and the global semiconductor shortage, India must become a viable alternative for midstream fabrication and downstream assembly/testing. PLI incentives, along with sovereign-backed R&D funds, would help attract global chipmakers.
- Green Manufacturing and EV Batteries: Exporting battery cells, solar wafers, and EV components could mitigate dependence on fossil fuel-based exports and align with global decarbonization targets.
- Argo-processing and Specialty Chemicals: Diversifying exports to reduce dependence on primary commodities would make India less vulnerable to sector-specific shocks.

Trade Infrastructure and Logistics Modernization

India’s logistics costs, estimated at 14% of GDP, are among the highest globally (World Bank, 2023). This significantly erodes export margins, particularly in bulk goods and time-sensitive perishables. Urgent interventions include:

- Fast-tracking the Delhi-Mumbai Industrial Corridor (DMIC), the Eastern Freight Corridor, and port digitization.
- Implementation of the Unified Logistics Interface Platform (ULIP) to ensure real-time intermodal cargo tracking.
- Encouraging Public-Private Partnerships (PPPs) for last-mile connectivity and cold-chain logistics, especially for agri-exports and temperature-sensitive pharmaceuticals.

These improvements would enhance India’s Logistics Performance Index (LPI) score and make its exporters more competitive even in high-tariff environments.

Diversification of Free Trade Agreements (FTAs)

With U.S. tariffs squeezing Indian exporters, market diversification becomes essential. India must expedite pending FTAs with:

- European Union: Especially to reduce duties on automotive components, textiles, and medical devices.
- United Kingdom: To secure preferential access for spirits, textiles, and organic food, and to benefit from post-Brexit trade realignment.
- Africa and Latin America: Untapped markets with rising demand for generics, Agri-machinery, and digital infrastructure solutions.

Recent successes in the UAE and Australia FTAs provide a blueprint for modular and sector-specific negotiations that can be scaled quickly and rebalanced over time.

Industry-Level Adaptations

Strategic Shifts in Business Models

Exporters should adopt a two-pronged strategy: price rationalization and vertical integration. Engineering firms may internalize key components to control costs. Textile and jewellery exporters should transition to high-margin and sustainable product lines to access premium U.S. market segments.

Pharmaceutical firms, insulated from tariffs, should fast-track regulatory approvals in the U.S. for biosimilars and patented molecules, enhancing revenue streams.

Sector-Specific Responses

- Textiles: Invest in traceability tech and eco-certifications to meet ESG compliance standards increasingly demanded by global brands.
- Electronics: Develop domestic sub-component ecosystems (e.g., chips, capacitors) under PLI support to reduce reliance on foreign imports that are vulnerable to tariffs.
- Automotive: Target electric vehicle (EV) parts and components, leveraging India's recent push in the EV space to integrate into global supply chains.

Institutional Lobbying

FICCI, CII, and NASSCOM should coordinate advocacy efforts in the U.S., focusing on the consumer cost of tariffs and the value of Indian inputs in American supply chains. Highlighting the mutual interdependence, especially in pharmaceuticals and IT - could help reverse or relax the tariffs.

Long-Term Strategic Risks and Opportunities

The most serious long-term risk is the normalization of protectionism. The so-called "global tariff reset" undermines the WTO and emboldens other countries to deploy unilateral trade remedies like anti-dumping duties (Chaisse and Chakraborty, 2022). India must prepare for a future where trade negotiations are driven more by strategic alliances than by multilateral rules.

However, India also stands at an inflection point. With a large domestic market, a growing digital economy, and a stable democracy, it has the ingredients to attract investment and climb the global value chain. The policy question is not whether to retaliate, but how to reposition India as a hub of resilient and responsible production.

Conclusion

The 2025 U.S. tariffs represent a turning point for India’s trade strategy. The 27% levy on Indian exports is not just a commercial setback but a broader signal of shifting global trade dynamics. While key sectors like engineering goods, electronics, and jewellery face immediate challenges, India must avoid retaliatory escalation and instead adopt a forward-looking strategy grounded in diplomacy, reform, and institutional strength.

India should leverage its geopolitical alignment with the U.S., especially in the context of Indo-Pacific cooperation and supply chain diversification, to negotiate targeted tariff relief through asymmetric concessions. Simultaneously, pursuing WTO dispute resolution would reaffirm India’s commitment to multilateral trade norms and protect its long-term economic credibility. On the domestic front, this moment calls for accelerated reforms: expanding the Production-Linked Incentive scheme, reducing logistics costs, and securing diversified trade agreements with the EU, UK, and emerging markets. Indian industries must also adapt by focusing on value-added production, ESG compliance, and alternative market expansion.

In essence, India must treat this challenge as an inflection point, not for retreat, but for reorientation. By responding with strategic clarity and policy coherence, India can convert short-term pressure into long-term economic opportunity and global positioning.

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