

De Jure

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**Tariff Tango: How USA trade policies dance with
India's economy!**



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simple solutions

Globalisation has been a connecting thread between economic development and peace. While reasonable restrictions on free trade are acceptable towards global economic growth; unreasonable restrictions on free trade often put a dampener on countries keen on trading. The order passed by the President of the United States on April 02, 2025¹ imposing additional tariff duty on imports to the USA has triggered political and economic turmoil. The tariff rate proposed on imports from India to the USA is 26%. While the order has been suspended until July 09, 2025², let us understand the immediate and subsequent impact of the tariff on the Indian economy.

If due to the imposition of tariff, Indian exporters raise prices for their American customers, it could impact the export of some of the products predominantly catered to the market in the USA. As such, the Indian producers and manufacturers may have to look for alternate markets who would like to purchase such products, unless there is an appetite in India for such products hitherto imported by the USA market. Even if the Indian market demands for such products, the question is whether the Indian consumer would be able to have similar purchasing power.

In order to lower the inflation triggered in the economy due to the tariff announcement³, the Reserve Bank of India's ("RBI") has reduced the repo rate from 6.25% to 6%.⁴ A lower repo rate facilitates the borrowing power of the commercial bank from RBI and as such the customers are incentivised to borrow from the commercial banks. The reduction in the repo rate has led to cash flow in the Indian economy⁵.

The list of products originally exempted from tariff includes pharmaceuticals, steel, critical minerals, and energy products⁶, amongst others. Later, additional items excluded from the tariff included electronic items such as smart phones and

¹ <https://www.whitehouse.gov/presidential-actions/2025/04/regulating-imports-with-a-reciprocal-tariff-to-rectify-trade-practices-that-contribute-to-large-and-persistent-annual-united-states-goods-trade-deficits/>

² <https://www.whitehouse.gov/presidential-actions/2025/04/modifying-reciprocal-tariff-rates-to-reflect-trading-partner-retaliation-and-alignment/>

³ <https://www.bbc.com/news/articles/cwy6nxkpkwpo>

⁴ <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2120509>

⁵ <https://www.ndtv.com/business-news/reserve-bank-of-india-cuts-key-lending-rate-by-25-basis-points-to-6-as-trump-tariffs-kick-in-8121755>

⁶ <https://www.whitehouse.gov/presidential-actions/2025/04/regulating-imports-with-a-reciprocal-tariff-to-rectify-trade-practices-that-contribute-to-large-and-persistent-annual-united-states-goods-trade-deficits/>

laptops⁷. Since the tariff is exempted for such critical products exported by India to the USA, it is a bit of relief for the Indian exporters of such products.

The tariff imposed by the USA on India (26%) in the textile segment could be an advantage as the tariff rate imposed on India is lesser in comparison to the rates imposed on countries like Vietnam (46%) and Bangladesh (37%), being major exporters of textiles to the USA⁸. The imposition of marginally lower tariff on India, gives an upper hand to Indian exporters of textiles as the USA is a major market for them⁹.

One of the immediate downsides of the tariff imposition was that foreign Institutional Investors have withdrawn around INR 39,000 crores (equivalent to US\$ 4,611,309,810.74 approximately) from the Indian equity market¹⁰, thereby shaking the equity inflow in the country. The tariff would have a bearing on the handicrafts sector also as the USA is the single largest market for Indian export of handicrafts¹¹.

Further, there is a possibility that China could use India as a dumping ground for its goods. This is because even though investments from China in India are subject to restrictions in terms of the Foreign Exchange Management (Non-debt Instruments) Rules, 2019 and Press Note 3, there are no restrictions on Indian importers importing goods from China. In order to avert such a situation, the Indian Government has set up an import surge monitoring group¹². The import surge monitoring group shall keep track of the imports and prevent any diversion of goods to India from countries like China and Vietnam which are subject to a higher tariff rate than India and have a trade deficit with the USA.

⁷ <https://www.whitehouse.gov/presidential-actions/2025/04/clarification-of-exceptions-under-executive-order-14257-of-april-2-2025-as-amended/> ;
<https://hts.usitc.gov/search?query=smartphone>

⁸ <https://www.whitehouse.gov/presidential-actions/2025/04/regulating-imports-with-a-reciprocal-tariff-to-rectify-trade-practices-that-contribute-to-large-and-persistent-annual-united-states-goods-trade-deficits/>

⁹ <https://www.livemint.com/industry/india-textile-exports-us-tariffs-trump-tariffs-india-apparel-us-reciprocal-tariffs-textiles-donald-trump-us-tariffs-11743653573020.html>

¹⁰ <https://economictimes.indiatimes.com/markets/stocks/news/fiis-dump-indian-stocks-for-9-straight-sessions-will-trumps-90-day-breather-lure-them-back/articleshow/120301993.cms?from=mdr>

¹¹ <https://indianexpress.com/article/opinion/columns/steel-electronic-trumps-tariff-india-fragile-handicrafts-9949215/>

¹² <https://www.telegraphindia.com/business/government-sets-up-import-surge-monitoring-group-amid-fears-of-goods-diversion-from-china-vietnam/cid/2094263>

The very rationale for global trade is to clear the gap between accessibility and economic insufficiency. Be it India supplying pharmaceutical products to the USA, Taiwan supplying chips to brands like Apple and Qualcomm, or Saudi Arabia being the largest exporter of petroleum to the world, global trade is imperative. While it may have been an act of protectionism on the part of the POTUS, the ethical concern is with respect to the ripple effect of such an announcement. The Government of the USA must have a balanced approach towards the tariff rates on all the countries as the impact is felt across every country and every sector, including that of the USA, considering the USA is a global superpower and has the largest consumer base. For India, it would be prudent to negotiate the bilateral trade treaty with the USA Government at the earliest in order to mitigate the possible unfavourable consequences.

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