



An Analysis of the impact of India and America Tariff on Indian Exports

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Abstract

Trade relations between India and the United States have historically been characterized by cooperation, occasional friction, and periodic renegotiation of tariff structures. As two large and growing economies, both nations use tariffs as instruments to protect domestic industries, generate revenue, and influence trade balances. However, shifts in tariff policies—especially by the United States—have had significant implications for Indian exports. Understanding these impacts is vital for policymakers, businesses, and stakeholders in bilateral trade. Tariffs between India and the U.S. fall into two broad categories: Tariffs imposed by the U.S. on Indian exports, often justified on grounds such as domestic industry protection, trade deficits, or compliance with global trade norms. Retaliatory or adjusted tariffs imposed by India, usually in response to U.S. policy changes or in alignment with domestic economic priorities. Both upward and downward revisions in tariffs can reshape trade volumes, export composition, and the competitiveness of Indian products in the American market. When the U.S. raises tariffs on Indian goods, the most immediate effect is an increase in the landed cost of Indian products. This typically: Weakens India's pricing advantage over competitors such as China, Vietnam, or Mexico. Leads U.S. importers to shift sourcing to alternative countries. Reduces profit margins for Indian exporters or increases consumer prices. For example, U.S. tariffs on steel and aluminum under national security clauses raised costs for Indian metal exporters, leading to a drop in export volumes.

Keywords:

Export, Tariff, Economic, Market

Introduction

The escalating imposition of tariffs between the United States and India, particularly the steep duties levied by the US on Indian goods, has created a significant shockwave across India's export sector. These protectionist measures have sharply curtailed India's access to one of its most critical markets, leading to substantial revenue loss, threatening job security, and forcing a rapid re-evaluation of India's global trade strategy. (Robert, 2021)

The most pronounced impact has been a sharp and immediate decline in the value of Indian exports to the US. A report by the Global Trade Research Initiative (GTRI) highlighted that a series of US tariff hikes—culminating in an effective 50% duty on many Indian goods—led to an export crash of over 28.5% within just five months (May to October 2025). This massive drop wiped out billions of dollars in trade, starkly illustrating the immediate chilling effect of high tariffs on trade flow.

The tariffs were not applied uniformly, and their impact was most devastating on India's labor-intensive sectors, which are vital for employment and support micro, small, and medium enterprises (MSMEs).

Labor-Intensive Goods: Sectors like Textiles and Garments, Gems and Jewellery, Marine Products (Shrimp), and certain Chemicals were subjected to the highest 50% tariff rate. Exports in these categories suffered the steepest decline, with some sub-sectors like gems and jewellery plummeting by over 75% in a single month. This has resulted in:

Loss of Competitiveness: Indian products became significantly more expensive, losing market share to rivals in countries like Vietnam and Bangladesh, which face lower tariffs.

Job Concerns: Manufacturing hubs in places like Tiruppur and Ludhiana are seeing job losses and rerouted orders, raising socio-economic stability concerns.

Even Tariff-Free Categories Suffered: Surprisingly, even products initially designated as "tariff-free," such as Smartphones and Petroleum Products, saw significant declines (25-36%). This suggests that the broader trade uncertainty and disruption created by the tariffs impacted business confidence and overall supply chain stability across the board. (Ray, 2022)

The tariff shock has extended beyond specific industries to create broader macroeconomic headwinds for India:

Pressure on the Indian Rupee: Increased trade tension and the resulting investor exodus—with Foreign Portfolio Investors (FPIs) pulling out billions—put severe pressure on the Indian Rupee, which crossed a historic psychological barrier against the US dollar. A weaker rupee makes imports more expensive, potentially fueling domestic inflation.

Manufacturing Slowdown: The HSBC India Manufacturing Purchasing Managers' Index (PMI) confirmed that the tariffs caused a slowdown in manufacturing expansion, with new export orders increasing at their slowest rate in over a year.

Need for Market Diversification: The crisis has highlighted India's over-reliance on the US market for key product lines. Exporters, particularly in marine products and auto components, have been forced to aggressively seek and pivot to new markets in the European Union, the Middle East, and other parts of Asia to mitigate the loss.

In response, the Indian government has refrained from immediate, reciprocal tariff hikes on all US goods, opting instead for a focus on:

Diplomatic Negotiation: Expediting negotiations to seek a reduction in US duties and establish a more stable bilateral trade framework.

Export Promotion: Launching export promotion missions and providing support to MSMEs to help them navigate the tariff hurdles and diversify their global presence.

Internal Reforms: The situation has reinforced calls for India to reduce its own protective tariffs on intermediate inputs, as suggested by the World Bank, to make domestic manufacturing more cost-competitive for global markets.

The imposition of steep US tariffs has dealt a severe blow to India's export performance, with a disproportionate impact on its vital, labor-intensive sectors. While the short-term economic damage is undeniable, the long-term impact may force India to accelerate its policy of market diversification and

streamline its domestic cost structures to build a more resilient and globally competitive export economy. (Banga, 2021)

Literature Review

Singh et al. (2021): Frequent tariff revisions or withdrawal of preferential schemes—such as the suspension of India’s GSP (Generalized System of Preferences) benefits earlier—create uncertainty. SMEs struggle to plan production, invest in capacity, or negotiate long-term contracts when they are unsure of future tariff conditions.

Pearson et al. (2022): Higher tariffs often come with stricter customs checks, documentation, and compliance norms. For SMEs that lack sophisticated administrative capacity, the additional paperwork and delays at ports translate into higher operational costs and longer working capital cycles.

Moore et al. (2022): Many Indian SMEs depend on imported inputs such as specialized machinery, chemicals, electronic components, and raw materials. When India raises tariffs on these imports for domestic protection or revenue generation, input costs rise. This reduces price competitiveness in export markets, especially for engineering goods, electronics, and textiles.

Chand et al. (2021): High tariffs on advanced components discourage SMEs from integrating cutting-edge technologies or producing high-value finished goods. This limits innovation and prevents SMEs from shifting to higher-margin segments that could strengthen their export performance.

Objectives of the study

- i) To study the impact of India and America Tariff on Indian Exports
- ii) To study the impact of India and America Tariff on various sectors

Research Methodology

For the current work, we used secondary data. We collected data from government websites and documents.

Results and Discussion

A significant portion of India's export economy—especially in handicrafts, leather, and textiles—is driven by SMEs. Tariff volatility creates uncertainty, discouraging long-term contracts and foreign investment. India has occasionally raised tariffs in response to U.S. actions or to protect domestic industries.

Overall Impact on India's Monthly Exports to the US (May to November 2025)

Month (2025)	US Tariffs on Indian Goods	Exports to US (USD Billions)	Monthly Change (%)
May	10% (Pre-Hike)	\$8.83	-
June	10%	\$8.00	-9.5%
July	10%	\$7.50	-6.3%
August	Escalating to 50%	\$6.80	-9.3%
September	50%	\$5.50	-19.1%
October	50%	\$6.31	+14.7%
November	50%	\$6.98	+10.6%



When India increases tariffs on American products—such as almonds, apples, or medical equipment—the U.S. often responds with diplomatic pressure or further trade scrutiny. Higher Indian tariffs may prompt the U.S. to view India as a more protectionist market, influencing its decisions on tariff preferences and trade programs. This can reduce the likelihood of India regaining benefits such as the GSP, affecting Indian export competitiveness.

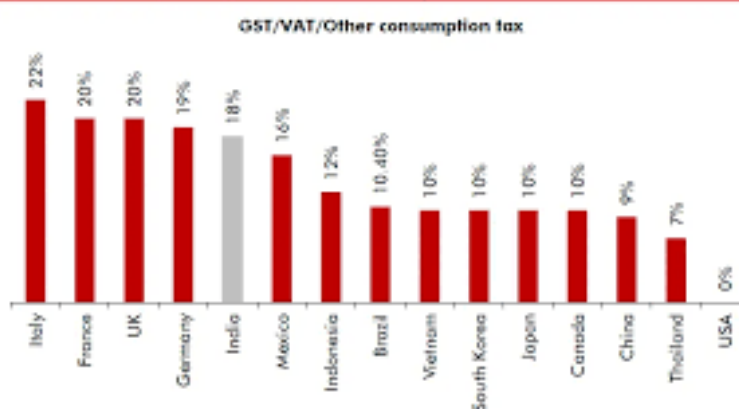
India Tariffs on U.S. Imports (Context Table)

Accurate current data on specific **Indian tariffs on U.S. goods** wasn't found in recent news reports, but historical/secondary estimates (from market commentary) indicate India often imposes higher duties than the U.S. on certain products:

Product Category	Approx. U.S. Tariff on Indian Goods	Approx. Indian Tariff on U.S. Goods
Shrimp	~5.8%	~30%
Plastics & articles	~4.4%	~9.95%

Machinery & Computers	~1.3%	~6.6%
Chemicals & Pharma	~1.06%	~9.68%
Diamonds & Jewellery	~2.1%	~15.45%
Textiles & Clothing	~9.0%	~10.37%

Exhibit 11: India has amongst the highest consumption taxes



Tariffs form a crucial part of trade policy and have significant implications for the flow of goods between countries. For India's Small and Medium Enterprises (SMEs)—which contribute substantially to employment, domestic industrial output, and export earnings—tariff dynamics between India and the United States can influence competitiveness, market access, and long-term growth. Understanding how both Indian and American tariff regimes interact is essential to grasp the overall impact on SME-led exports.

Indian SMEs account for a large share of manufacturing output and nearly half of India's overall exports. They operate in diverse sectors such as textiles, leather, pharmaceuticals, engineering goods, gems and jewellery, and IT-enabled services. However, due to their relatively smaller scale, limited capital reserves,

and dependence on stable international demand, SMEs are more vulnerable than large firms to tariff changes and regulatory shocks.

When the United States imposes higher tariffs on Indian products, the landed cost of these goods becomes higher for American importers. As price-sensitive buyers shift to cheaper alternatives from Vietnam, Bangladesh, or China, Indian SMEs experience a decline in orders. Sectors like textiles, metalware, and handicrafts are particularly affected due to their thin profit margins and high competition.

Tariffs often contribute to broader macroeconomic effects like exchange rate volatility. A weaker rupee may temporarily boost exports, but unpredictable swings hurt long-term planning for SMEs.

As tariffs influence multinational companies to reorganize supply chains, countries like Vietnam, Indonesia, and Mexico may become more attractive hubs. Indian SMEs may lose their position in global value chains if tariff policies make India a costlier or less predictable partner.

Tariff actions can trigger retaliatory measures, straining bilateral trade relations. Such tensions create long-term uncertainty for SMEs whose expansion depends on stable and predictable trade environments. Higher tariffs on imported inputs or finished goods sometimes encourage local production, fostering domestic supplier networks and creating economies of scale over time.

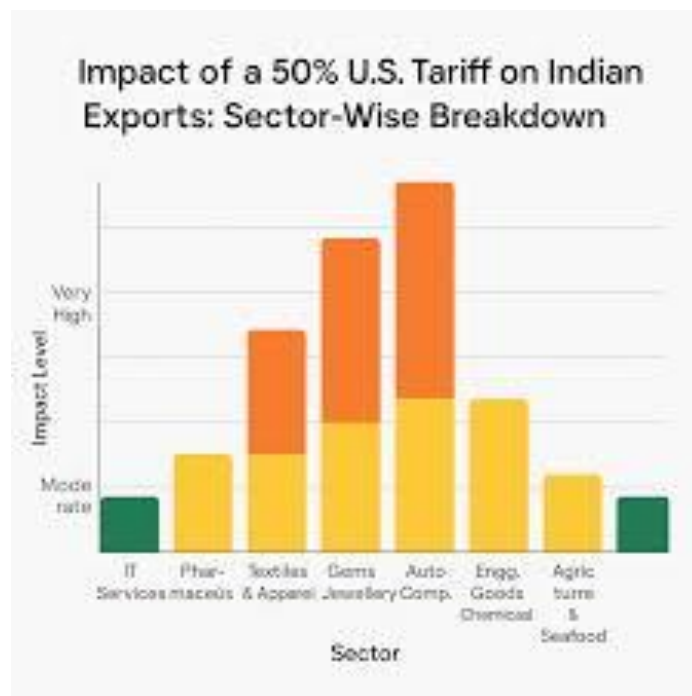
Sector-Wise Impact on Indian Exports to the US

The 50% tariff has been selectively applied, hitting certain sectors much harder than others. Labor-intensive goods saw the steepest decline, while some tariff-exempt categories have shown resilience.

Export Category	US Tariff Level	Exports Decline (May to October 2025)	Status/Competitors
Labour-Intensive Goods (Textiles, Gems, Marine, Auto Parts)	50%	75.7% crash	Orders rerouted to Vietnam, Bangladesh, and China.

Smartphones (Tariff-Exempt)	Zero	36.0% drop	Decline attributed to other factors; remains India's top export product.
Pharmaceuticals (Tariff-Exempt)	Zero	1.6% dip	Relatively resilient, supports nearly 50% of the US generic drug market.
Agriculture & Food Products (Overall)	Up to 50%	45.4% drop	Major declines in Cocoa (-99%) and Dairy/Honey (-71.9%).
Engineering Goods (General)	50%	Mixed/Rebounding	Showed a strong rebound in November, indicating adaptation.
Gems & Jewellery	50%	Sharp Initial Decline	Showing early signs of recovery/resilience in November by diversifying markets (e.g., UAE).

When U.S. tariffs reduce the attractiveness of the American market, Indian SMEs often diversify into Europe, West Asia, Africa, and Southeast Asia. This reduces dependence and increases geopolitical resilience. Tariff-linked compliance requirements sometimes encourage SMEs to adopt better standards, improve product quality, and invest in modern technologies—enhancing long-term competitiveness.



Tariffs imposed by India and the United States play a major role in shaping the export environment for Indian SMEs. While U.S. tariffs tend to reduce competitiveness and market certainty, Indian tariffs on critical imports may raise production costs and limit technological progress. However, strategic policy reforms, improved bilateral negotiation, and SME capacity-building initiatives can help counter these challenges. Ultimately, a stable and supportive trade ecosystem is essential for Indian SMEs to expand their exports, integrate into global value chains, and contribute more strongly to India's economic growth.

Trade relations between India and the United States have historically played an important role in shaping the growth trajectory of India's textile sector. Textiles are among India's oldest and most export-intensive industries, contributing significantly to foreign exchange earnings and employment. However, tariff policies—both those imposed by the U.S. on Indian exports and India's own tariff strategies—have had mixed consequences for the sector. Understanding these impacts is crucial to assessing how global trade dynamics shape India's competitiveness.

India is one of the largest exporters of cotton textiles, apparel, and home furnishings to the United States. Historically, Indian textile exporters benefited from preferential tariff access under the U.S. Generalized System of Preferences (GSP). However, the withdrawal of GSP benefits in 2019, combined with periodic

tariff revisions, created new trade challenges. On the other hand, India has also altered its tariff regime on certain textile raw materials and machinery imports, indirectly influencing export competitiveness.

When the U.S. increases import tariffs on Indian textiles or denies preferential duty benefits, Indian products become relatively more expensive compared to those from competitors such as Bangladesh, Vietnam, and China. Since textile retail in the U.S. is extremely price-sensitive, even modest tariff increases reduce demand for Indian products.

American importers, especially large retail chains, often shift their sourcing to countries with lower or zero tariffs. For example, countries like Bangladesh and Vietnam enjoy preferential access through trade agreements, giving them a clear advantage. Indian exporters have therefore lost part of their market share in segments such as apparel and home linens.

Higher tariffs make it difficult for Indian exporters to maintain profitability. To remain competitive, many have had to absorb part of the tariff burden by reducing their own selling prices. This has resulted in shrinking margins, impacting reinvestment capacity, technology upgrades, and labor wages in the industry.

The Indian textile sector is dominated by SMEs, which are less capable of handling sudden changes in tariff environments. For them, rising U.S. duties significantly disrupt supply chains, delay shipments, and increase compliance costs, weakening their ability to compete globally.

India occasionally raises import duties on raw materials such as synthetic fibers, machinery, or specialized fabrics to protect domestic producers. While beneficial for certain upstream industries, these measures increase production costs for downstream exporters, reducing competitiveness in global markets like the U.S.

Higher tariffs on advanced machinery—such as automated looms, dyeing equipment, and digital printing systems—discourage firms from upgrading their technology. This widens the gap between India and other textile-exporting nations with more modern manufacturing ecosystems.

Textiles are one of India's largest employers. Fluctuating U.S. tariffs affect production volumes, and reduced export orders can lead to layoffs or reduced working hours, especially among women and rural laborers.

Frequent tariff changes generate uncertainty for exporters. Long-term contracts become difficult to negotiate, inventory planning is affected, and export financing becomes riskier.

In response to tariff-related challenges, Indian exporters have attempted to diversify their markets to Europe, the Middle East, and Africa. However, replacing the scale and profitability of the U.S. market remains difficult.

India has been working to regain preferential trade benefits and reduce tariff barriers through diplomatic channels. A more predictable tariff regime would significantly help revive export momentum.

Even in a high-tariff environment, investments in automation, digital supply-chain tools, and modern machinery can improve quality and reduce production costs, making Indian textiles more attractive even with tariffs.

Shifting from low-margin commodities to branded, value-added apparel and technical textiles can reduce vulnerability to tariff fluctuations and improve profitability.

Sector-Specific Impacts

Textiles and Apparel: Even small tariff increases can drastically affect demand, as this sector is highly price-sensitive. Losing preferential treatment under schemes like GSP (Generalized System of Preferences) made roughly \$6 billion worth of Indian exports more expensive in the U.S. market.

Agricultural Products: U.S. tariffs on items like mangoes or processed foods can restrict market access since such goods face strong competition from Latin American suppliers.

Engineering and Machinery: Higher tariffs reduce India's ability to compete with technologically advanced or lower-cost producers.

Tariff policies between India and the United States have had a substantial impact on Indian textile exports, influencing price competitiveness, market share, and industrial growth. While U.S. tariffs—especially the loss of GSP benefits—have posed challenges, India's own tariff decisions on raw materials and machinery have also indirectly affected export performance. For sustained growth, India must adopt a combination of strategic diplomacy, technological upgrading, and market diversification. A stable and mutually

beneficial trade environment can help the Indian textile sector continue to thrive in one of its most important export markets.

Impact of India and America Tariff on Foreign exchange

Tariffs imposed by major economies such as India and the United States influence not only trade flows but also foreign exchange (FX) markets. Changes in tariff structures affect export competitiveness, capital flows, balance of payments, and investor sentiment, all of which directly or indirectly determine exchange rate movements. Given the strong trade and financial linkages between India and the US, tariff actions between the two economies have meaningful implications for the Indian Rupee (INR) and the US Dollar (USD).

Tariffs between India and the United States influence foreign exchange markets primarily through trade balances, capital flows, and investor sentiment. While US tariffs tend to exert depreciation pressure on the Indian Rupee, the impact on the US Dollar is relatively muted. Overall, the FX effects of tariffs are often indirect and amplified by global risk perceptions rather than trade volumes alone. Sustained exchange rate stability therefore depends more on macroeconomic fundamentals and policy credibility than on tariff measures in isolation.

Tariffs influence foreign exchange markets through multiple interrelated economic channels, most notably the trade balance, capital flows, and monetary policy responses. When tariffs are imposed, imported goods become more expensive in the domestic market, leading to a reduction in import demand. If exports remain unchanged while imports decline, the trade balance improves, increasing demand for the domestic currency and supporting its appreciation. However, this effect is often short-lived, as trading partners may respond with retaliatory tariffs. Such retaliatory measures reduce export volumes, deteriorate the trade balance, and exert depreciation pressure on the domestic currency.

In addition to trade effects, tariffs significantly impact capital flows. The imposition of tariffs heightens economic and policy uncertainty, which discourages foreign direct investment and portfolio inflows. Reduced investor confidence often leads to capital outflows, increasing the supply of the domestic currency in foreign exchange markets and causing depreciation. During periods of global trade conflict, international investors typically shift their portfolios toward safe-haven assets, particularly the US dollar, further strengthening the USD and weakening emerging market currencies.

Tariffs also affect exchange rates through inflation and monetary policy channels. By increasing the prices of imported goods, tariffs contribute to domestic inflationary pressures. Central banks may respond to rising inflation by tightening monetary policy through higher interest rates. Changes in interest rates alter interest rate differentials between countries, influencing capital flows and exchange rate movements. In some cases, however, central banks may prioritize growth over inflation control, limiting their response and allowing currency depreciation to absorb external shocks.

When the United States imposes tariffs on Indian exports, such as steel and aluminum, or withdraws preferential trade benefits like the Generalized System of Preferences (GSP), India's export competitiveness is adversely affected. Higher tariffs reduce the demand for Indian goods in the US market, leading to lower export earnings and reduced inflows of US dollars. This decline in export revenue weakens India's current account position and increases pressure on the Indian Rupee.

The reduction in foreign exchange inflows coincides with increased demand for the US dollar within India. Importers and firms with USD-denominated external liabilities seek additional dollars to meet payment obligations, further intensifying depreciation pressures on the rupee. At the same time, heightened trade tensions create uncertainty in financial markets, encouraging speculative activity and short-term capital movements. As a result, the INR–USD exchange rate often experiences increased volatility during periods of tariff escalation rather than a smooth adjustment.

Tariffs imposed by India on US goods, including agricultural products and manufactured items, tend to have a relatively limited impact on the US dollar. The diversified and large-scale nature of the US economy reduces its dependence on any single trading partner, including India. Although Indian tariffs may marginally reduce US export revenues and associated dollar inflows, these effects are generally insufficient to influence the overall strength of the USD.

Furthermore, the US dollar's status as the world's primary reserve currency ensures sustained global demand, particularly during periods of economic uncertainty. This structural advantage offsets any minor trade-related losses arising from Indian tariffs. However, Indian tariff measures may encourage domestic firms to diversify their import sources away from the US, subtly altering bilateral trade settlement patterns and reducing the relative importance of India-US trade flows in foreign exchange transactions.

In situations involving reciprocal tariff escalation or trade wars, foreign exchange markets tend to react strongly to rising uncertainty. Global investors typically seek safety in US dollar-denominated assets, leading to an appreciation of the USD. Emerging market currencies, including the Indian Rupee, are particularly vulnerable during such periods, as risk-averse investors withdraw capital from these markets. This behavior increases capital outflows and contributes to rupee depreciation.

Frequent policy announcements, shifting tariff rates, and unclear trade negotiations further amplify exchange rate volatility. Rather than reflecting underlying economic fundamentals, exchange rate movements during trade wars are often driven by speculation, expectations, and short-term capital flows.

Empirical evidence from India–US trade relations indicates that tariff-related shocks are more closely associated with increased exchange rate volatility than with persistent currency depreciation. While short-term fluctuations in the INR–USD exchange rate are common following tariff announcements, long-run exchange rate trends remain largely determined by macroeconomic fundamentals such as growth, inflation, and capital flows. The Reserve Bank of India frequently intervenes in foreign exchange markets to smooth excessive volatility, using its foreign exchange reserves to stabilize the rupee and limit the disruptive effects of tariff-induced shocks.

For India, reducing dependence on a limited number of export markets can significantly lower vulnerability to tariff-related exchange rate shocks. Export diversification, along with the accumulation of adequate foreign exchange reserves, enhances resilience against sudden capital outflows and external trade disruptions. Stable macroeconomic policies and credible monetary management also help anchor investor confidence.

For the United States, tariffs offer limited benefits in terms of exchange rate adjustment due to the dollar's dominant position in the global financial system. While tariffs may influence specific sectors, prolonged trade disputes risk undermining confidence in global trade and financial stability, potentially leading to inefficiencies and increased market volatility.

Conclusion

Tariffs between India and the United States play a significant role in shaping the trajectory of Indian exports. While U.S. tariff increases often restrict India's market access and reduce competitiveness, Indian

retaliatory tariffs can create indirect pressures that complicate trade relations further. Yet, these challenges also present opportunities—encouraging diversification, value addition, and strategic negotiations. For sustained growth in exports, India must pursue balanced tariff policies, negotiate for stable trade conditions, and continuously enhance the global competitiveness of its industries.

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