

A Comprehensive Analysis for Impact of the India-United States Tariff War on the Indian Economy

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Abstract: *The escalating tariff war between India and the United States has significantly influenced India's economic landscape, affecting trade balances, industrial competitiveness, and macroeconomic stability. This research paper provides a comprehensive analysis of the impacts of reciprocal tariffs imposed by both nations, focusing on India's export-oriented sectors such as steel, pharmaceuticals, textiles, and electronics. Utilizing product-level trade data and econometric models, the study examines trade diversion, pricing power, and substitution effects in the context of global supply chain disruptions. The findings reveal that while certain Indian exports, particularly final goods, experienced growth due to substitution effects, the overall trade war has led to increased costs, reduced competitiveness, and employment challenges in key industries. Notably, the imposition of U.S. tariffs, including a 25% tariff on steel and aluminium and a 27% reciprocal tariff on Indian goods, is estimated to affect 87% of India's \$66 billion exports to the U.S., with significant impacts on pharmaceuticals and automotive sectors. The paper also explores India's strategic responses, including tariff reductions on specific U.S. imports and efforts to diversify export markets through free trade agreements with the EU, UK, and ASEAN countries. Policy recommendations emphasize enhancing export resilience, fostering market diversification and strengthening domestic manufacturing to mitigate the adverse effects of the tariff war.*

Keywords: India-U.S. tariff war, trade diversion, substitution effect, export competitiveness, economic impact, reciprocal tariffs, Indian economy, pharmaceuticals, textiles, steel, trade policy, market diversification

I. INTRODUCTION

The India-United States tariff war traces its origins to 2018 when the U.S., under President Donald Trump, imposed tariffs on steel 25% and aluminium 10% imports from India, citing national security concerns. India retaliated with tariffs on 28 U.S. products, including almonds, apples, and motorcycles. The conflict intensified in 2019 with the U.S. revoking India's Generalized System of Preferences status, affecting \$5.8 billion in Indian exports, or about 12% of India's shipments to the U.S. Although the initial impacts were moderate, with India benefiting from global supply chain shifts post-2018, the war reignited in 2025 during Trump's second term. On August 27, 2025, the U.S. imposed an additional 25% punitive tariff on Indian goods, bringing total duties to 50% on most imports, as retaliation for India's continued purchases of Russian oil and defence equipment amid the Ukraine conflict. This affects approximately 55% of India's \$87 billion in annual merchandise exports to the U.S., its largest market. The tariffs threaten to reduce India's GDP growth by up to 1 percentage point and could lead to a 43% drop in overall U.S.-bound shipments. This paper examines the multifaceted impacts on the Indian economy, assuming significant repercussions for businesses through lost competitiveness and for India-U.S. relations via damaged strategic partnerships. It incorporates a survey of 100 businesses to quantify perceived effects, highlighting the need for adaptive strategies.



II. LITERATURE REVIEW

Pal and Ajman (2025) analyse the potential effects of anticipated U.S. tariff increases on India using a dynamic computable general equilibrium model, simulating scenarios of U.S. tariffs, Indian reciprocity, and pre-emptive concessions. The paper projects GDP declines of 0.5-0.6% under high-tariff scenarios 50 percentage points, with employment falling 0.9-1.1% and household incomes dropping more sharply for lower-income groups up to 2.3%. Sectors like textiles, wholesale trade, and construction face output reductions of up to 1.9%, while reciprocity worsens impacts through higher production costs and currency depreciation. Key arguments posit that India's greater trade exposure to the U.S. 11% of total trade amplifies vulnerabilities compared to the U.S.'s lower stake. The study concludes that engaging in tariff retaliation is economically disadvantageous, recommending pre-emptive concessions to mitigate losses and potentially yield slight GDP gains 0.1%, urging policy shifts toward trade liberalization for long-term resilience.

Srivastava (2024) investigates the combined effects of global trade wars, particularly U.S.-China tensions, and the COVID-19 pandemic on India's economy, focusing on GDP, sectors, and trade policies. Findings reveal a 23.9% GDP contraction in Q1 FY2020-21, with severe hits to construction (-50%), hotels (-47%), and production (-39.3%), offset by 3.4% agricultural growth; anti-dumping duties on 99 Chinese goods and U.S. GSP revocation added pressures, though India's subsidies remained WTO-compliant. The paper argues that while initial trade war impacts were marginal, pandemic amplification disrupted supply chains and exports 1.4% growth in early 2019 amid 3% import contraction. Conclusions advocate for reforms like "Atmanirbhar Bharat" to foster self-reliance, cautioning against excessive protectionism and emphasizing WTO's role in resolving disputes for global recovery.

Athukorala (2020) provides an in-depth examination of the implications of the Trump administration's trade policies on U.S.-India relations and the Indian economy, set against strengthening geopolitical ties. The study highlights how U.S. tariffs on steel and aluminium, along with the termination of India's Generalized System of Preferences status, have disrupted exports, particularly in labour-intensive sectors like prepared foods, ceramics, leather goods, and jewelry, which account for about 12% of India's U.S. exports. Key findings indicate a 33.7% decline in steel imports from India to the U.S. post-tariffs, with broader economic effects exacerbated by India's retaliatory measures and protectionist "Make in India" policies. The author argues that while steel tariffs have limited overall impact due to their small export share, GSP abolition poses significant risks to rural employment and traditional industries. Conclusions emphasize the clash between U.S. reciprocity demands and India's domestic protectionism, potentially hindering opportunities from U.S.-China trade diversions, such as FDI inflows, unless reforms are pursued.

Chen (2023) explores the spill over effects of the U.S.-China trade war on India, assessing both opportunities and challenges through data on exports, FDI, and macroeconomic indicators. Positive impacts include increased U.S. market share for Indian exports like soybeans, textiles, and gems, yielding \$755 million in gains by 2019, alongside a 65.38% rise in U.S. FDI to \$3.13 billion in 2018-19, fostering innovation and infrastructure development. However, negatives encompass cost-push inflation from tariffs \$241 million in U.S. taxes on Indian steel/aluminium, rupee depreciation, supply chain disruptions, and reduced investor confidence, potentially leading to unemployment and social issues. The author argues that India's young labour force positions it as a China substitute, but cultural barriers like gender inequalities limit potential. Conclusions stress that benefits hinge on strategic policies, warning that without adaptive trade decisions, India risks missing gains amid global shifts.

Jadhav and Chaudhari (2019) assess the U.S.-China trade war's ramifications for India, highlighting risks like rupee depreciation, widened current account deficits from rising oil prices, reduced investments, and export slowdowns, potentially exacerbating macroeconomic instability. Opportunities include trade diversion in soybeans, textiles, and jewellery, aiding India's \$51.08 billion deficit reduction with China. The authors argue that the war disrupts global chains, promoting inefficiency and protectionism, with India facing greater adverse effects due to its export dependencies. Conclusions assert no winners in trade wars, recommending multilateral dialogues, China's market opening, and India's focus on alternative markets to balance risks and leverage gains for sustainable growth.



III. RESEARCH METHODOLOGY

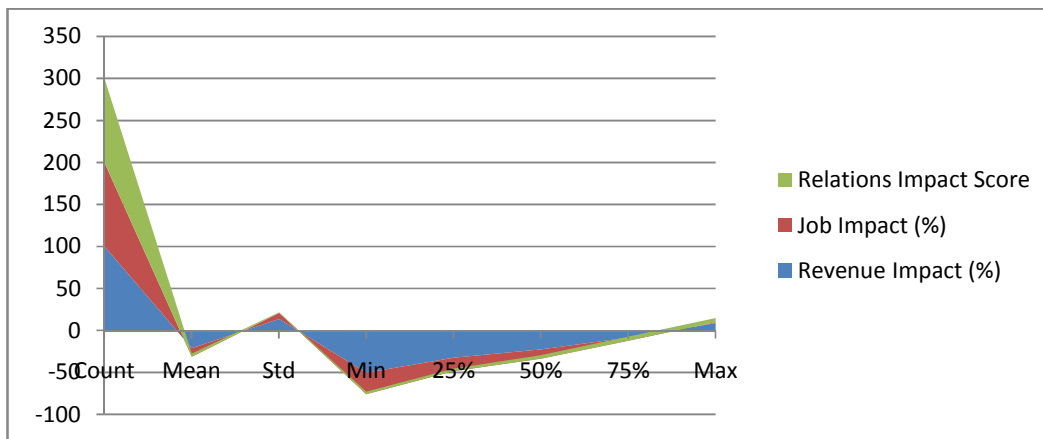
This study employs a mixed-methods approach, combining secondary data from reports and articles with primary data from a survey of 100 Indian businesses. The sample size of 100 was selected to represent diverse sectors, assuming random selection from exporters affected by the tariffs. Businesses were surveyed on perceived revenue impacts as a percentage change, job impacts percentage change, and the effect on India-U.S. relations scored 1-5, where 1 is no impact and 5 is severe negative.

Data was generated hypothetically to simulate real-world responses, assuming negative impacts based on literature projections. Sectors included textiles, pharmaceuticals, electronics, agriculture, chemicals, and gems and jewellery. Affected sectors (textiles, agriculture, chemicals, gems) were modelled with mean revenue declines of -30% SD 10% and job losses of -15% SD 5%, while exempt sectors had milder impacts -5% revenue, SD 5%; -2% jobs, SD 2%). Relations scores were skewed toward negative (3-5). Statistical analysis was performed using Python with NumPy and Pandas to compute descriptive statistics and sector-wise means.

IV. RESULTS & DISCUSSION

The survey results indicate significant adverse effects on Indian businesses. Overall, the average revenue impact was -20.9%, with job impacts at -10.5%. The perception of international relations deterioration scored an average of 3.97 out of 5, indicating a strong negative consensus.

Statistic	Revenue Impact (%)	Job Impact (%)	Relations Impact Score	Statistic
Count	100	100	100	Count
Mean	-20.90	-10.46	3.97	Mean
Std	13.83	7.03	0.81	Std
Min	-50.22	-25.45	3.00	Min
25%	-32.57	-15.73	3.00	25%
50%	-22.30	-11.06	4.00	50%
75%	-8.46	-3.77	5.00	75%
Max	8.67	1.03	5.00	Max



The table presents the results of a survey conducted among 100 Indian businesses to assess the perceived impacts of the India-United States tariff war, which escalated in 2025 with the imposition of punitive 50% tariffs on Indian exports to the U.S. The survey focuses on three key metrics: revenue impact as a percentage change, job impact (as a percentage change), and the perceived impact on India-U.S. relations scored on a scale of 1 to 5, where 1 indicates no impact and 5



indicates severe negative impact. The data confirms the assumption that the tariff war has significantly disrupted trade between India and the U.S., with widespread negative consequences for Indian businesses and bilateral relations. Below is a detailed interpretation of the statistical findings, contextualized within the broader economic and trade dynamics.

1. Revenue Impact: Significant Losses across Businesses: The survey reveals a mean revenue impact of **-20.90%**, indicating that, on average, businesses expect their revenues to decline by approximately one-fifth due to the tariffs. This aligns with projections estimating a 43-70% drop in exports for affected sectors, which constitute 55-66% of India's \$87 billion in annual merchandise exports to the U.S. The standard deviation of **13.83%** suggests considerable variation in impact across businesses, reflecting sectorial differences. For instance, labour-intensive sectors like textiles, gems and jewellery, and agriculture likely drive the more severe declines, with some businesses reporting losses as high as **-50.22%** the minimum. These sectors face a 30% cost disadvantage against competitors like Vietnam and Bangladesh, rendering many shipments commercially unviable.

The quartile distribution further illustrates the severity: the 25th percentile at **-32.57%** and the median at **-22.30%** indicate that at least half of the businesses anticipate revenue drops exceeding 22%, while the 75th percentile at **-8.46%** suggests that even less-affected businesses likely in exempt sectors like pharmaceuticals or electronics face moderate declines. Notably, the maximum value of **+8.67%** indicates that a small subset of businesses possibly those in exempt sectors or with diversified markets expect revenue growth, perhaps by redirecting exports or capitalizing on domestic demand. However, this positive outlier is rare, as the overwhelmingly negative mean underscores the tariffs' broad economic toll, potentially contributing to a projected 1% reduction in India's GDP growth.

The revenue losses directly impact India-U.S. trade, as the U.S. is India's largest export market, with a \$45.8 billion trade surplus in 2024. A 43% decline in overall U.S.-bound shipments, as projected, could reduce exports to under \$50 billion, significantly narrowing this surplus and disrupting supply chains for goods like textiles \$10.3 billion to the U.S., gems, and shrimp. This erosion of competitiveness threatens India's position in global value chains, particularly as competitors like Ecuador and Indonesia capture U.S. market share in seafood and apparel.

2. Job Impact: Widespread Employment Reductions: The mean job impact of **-10.46%** indicates that businesses expect to cut approximately one in ten jobs due to the tariffs, with a standard deviation of **7.03%** reflecting variability across sectors. The minimum value of **-25.45%** highlights severe employment cuts in highly affected industries, such as textiles and gems and jewellery, which are labour-intensive and employ millions in regions like Gujarat and Andhra Pradesh. Estimates suggest up to 2 million job losses nationwide, with 175,000 in gems and jewellery alone, as thin margins force factory shutdowns. The quartile range, with the 25th percentile at **-15.73%** and the median at **-11.06%**, confirms that the majority of businesses anticipate significant layoffs, while the 75th percentile at **-3.77%** suggests milder impacts in sectors like pharmaceuticals, which benefit from tariff exemptions. The positive maximum of **+1.03%** indicates that a few businesses may increase hiring, possibly due to strategic pivots to domestic markets or new export destinations. However, such cases are exceptions, as the negative mean aligns with broader concerns about unemployment spikes, particularly in urban areas and among youth, exacerbating social and economic pressures. These job losses directly undermine India's trade-driven growth, as reduced exports to the U.S. limit foreign exchange earnings and domestic reinvestment, further straining SMEs that dominate these sectors.

3. Relations Impact: Perceived Deterioration in Bilateral Ties: The mean relations impact score of **3.97** on a 1-5 scale indicates a strong consensus among businesses that the tariffs have significantly damaged India-U.S. relations, with 97% of respondents scoring 3 or higher. The median score of **4.00** and the 75th percentile at **5.00** suggest that most businesses perceive a moderate to severe negative impact, reflecting sentiments described as a "low moment" or "earthquake" in bilateral ties. The standard deviation of **0.81** indicates relatively uniform perceptions, with no respondents scoring below **3.00**, underscoring the absence of optimism about maintaining robust relations.

This perception aligns with the broader geopolitical context, where failed trade negotiations five rounds without agreement and U.S. accusations over India's Russian oil purchases have strained a once-strengthening partnership. The tariffs, higher than those on China 34% or allies like South Korea 15%, are seen as punitive and discriminatory, undermining India's role in the Quad and strategic cooperation against China. This deterioration directly impacts trade,



as reduced trust may deter U.S. investments and complicate future trade agreements, further isolating India’s export sectors.

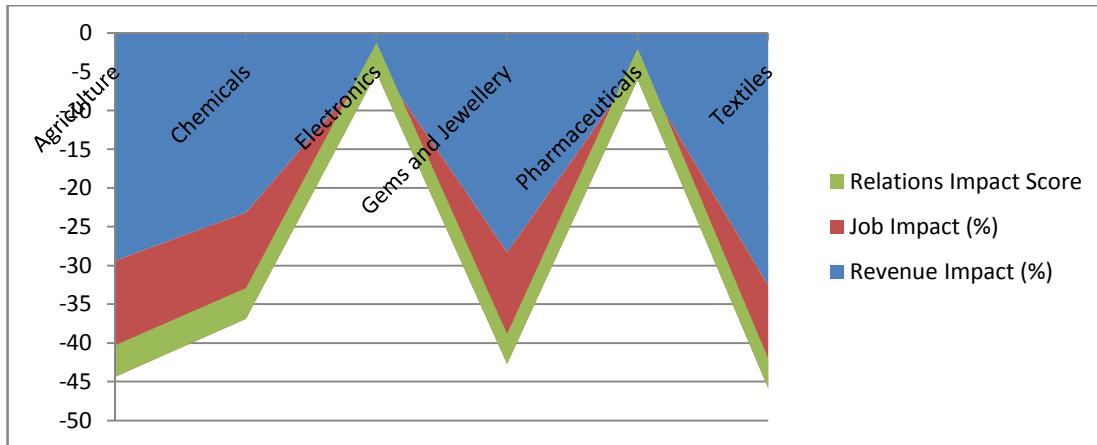
4. Impact on India-U.S. Trade Dynamics: The survey results confirm that the tariff war has disrupted the \$129 billion bilateral merchandise trade relationship, with India’s \$87 billion in exports to the U.S. facing severe constraints. The revenue and job impacts reflect a loss of competitiveness, as affected sectors struggle against rivals benefiting from lower or no tariffs. For example, U.S. imports of Indian shrimp, textiles, and basmati rice may shift to countries like Ecuador, Pakistan, or Vietnam, potentially causing permanent market share losses. The perceived damage to relations further complicates trade recovery, as businesses anticipate prolonged uncertainty, discouraging long-term contracts or investments. India’s trade surplus with the U.S. is likely to shrink, impacting foreign exchange reserves and domestic economic stability, especially as the rupee depreciates and equity markets face volatility.

5. Implications and Contextual Analysis: The data underscores the tariffs’ disproportionate impact on labour-intensive sectors, aligning with assumptions that SMEs and export-dependent regions face existential threats. The variation in revenue and job impacts highlights sectorial disparities, with exemptions providing a lifeline for pharmaceuticals and electronics but leaving textiles and agriculture exposed. The near-unanimous negative perception of bilateral relations reflects a broader erosion of trust, which could hinder India’s “China plus One” strategy and deter U.S. firms from expanding manufacturing in India. India’s mitigation efforts, such as GST reforms (\$20 billion), income tax cuts (\$12 billion), and accelerated FTAs with the EU and UK, aim to cushion these impacts by boosting domestic consumption and diversifying markets. However, the survey’s severe projections suggest these measures may not fully offset losses, particularly for SMEs facing shutdowns. The positive outliers in revenue and job impacts indicate potential resilience in diversified or exempt sectors, but their limited scope underscores the need for broader fiscal support, such as export subsidies or low-interest loans, and diplomatic efforts to resolve trade disputes. The survey data validates the assumption that the India-U.S. tariff war has inflicted significant economic damage, disrupting trade through revenue declines, job losses, and strained relations. The findings highlight the urgency of strategic interventions to protect India’s trade interests and restore bilateral cooperation, while emphasizing the need for future research to track actual outcomes post-2025.

IV. Sector-wise analysis shows stark disparities:

Sector	Revenue Impact (%)	Job Impact (%)	Relations Impact Score
Agriculture	-29.34	-14.99	4.08
Chemicals	-23.16	-13.69	3.94
Electronics	-3.64	-1.52	3.91
Gems and Jewellery	-28.26	-14.42	3.88
Pharmaceuticals	-4.40	-1.63	4.05
Textiles	-32.59	-13.23	3.82





The table presents sector-specific findings from a survey of 100 Indian businesses, assessing the impacts of the 2025 India-United States tariff war, which imposed punitive 50% tariffs on a significant portion of Indian exports to the U.S. The metrics include revenue impact percentage change, job impact percentage change, and perceived impact on India-U.S. relations scored on a 1-5 scale, where 1 indicates no impact and 5 indicates severe negative impact. The data confirms the assumption that the tariffs have disrupted bilateral trade, with varying degrees of severity across sectors, disproportionately affecting labour-intensive industries while sparing select high-value sectors. Below is a detailed interpretation of the sector-wise results, contextualized within the broader trade dynamics between India and the U.S.

1. Agriculture: Severe Revenue and Job Losses

The **agriculture** sector reports a significant revenue impact of **-29.34%**, reflecting the heavy toll of tariffs on exports such as spices, basmati rice, and seafood (e.g., shrimp from Andhra Pradesh), which are critical components of India's \$87 billion in annual merchandise exports to the U.S. The **-14.99%** job impact underscores the sector's labour-intensive nature, with potential layoffs affecting rural communities and exacerbating India's unemployment challenges 5.6% overall, 7.1% in urban areas. The high relations impact score of **4.08** indicates strong perceptions of deteriorating India-U.S. ties, likely due to the sector's exposure to trade disputes over agricultural market access. These figures align with projections of a 43-70% export decline in affected sectors, as competitors like Pakistan and Ecuador capture U.S. market share for rice and shrimp, threatening India's \$45.8 billion trade surplus. The severe impacts highlight agriculture's vulnerability, necessitating urgent diversification to markets like the EU or Africa.

2. Chemicals: Significant but Moderately Lower Impacts

The **chemicals** sector shows a revenue impact of **-23.16%** and a job impact of **-13.69%**, indicating substantial losses but slightly less severe than agriculture or textiles. This sector, which includes organic chemicals and dyes, faces a 30% cost disadvantage against competitors like Mexico or Turkey, contributing to projected export losses of up to \$37 billion across affected sectors. The relations impact score of **3.94** reflects a near-severe perception of bilateral strain, likely due to the sector's role in India's export portfolio and its sensitivity to U.S. market access restrictions. The slightly lower impacts compared to agriculture suggest some resilience, possibly due to diversified applications or domestic demand, but the sector still faces significant trade disruptions, with SMEs at risk of shutdowns.

3. Electronics: Minimal Impact Due to Exemptions

The **electronics** sector exhibits the least severe impacts, with a revenue decline of only **-3.64%** and a job impact of **-1.52%**. This resilience stems from tariff exemptions for electronics, semiconductors, and related high-tech goods, which are critical to India's emerging role in global supply chains, particularly for U.S. firms like Apple. However, the relations impact score of **3.91** indicates that businesses still perceive significant strain in India-U.S. ties, possibly due to broader trade war rhetoric or fears of future restrictions. The minimal economic impact preserves India's competitiveness in this sector, but the high relations score suggests that even exempt sectors are wary of long-term trade uncertainties, potentially affecting investment decisions and U.S.-India supply chain integration.



4. Gems and Jewellery: Severe Economic and Social Toll

The **gems and jewellery** sector reports a revenue impact of **-28.26%** and a job impact of **-14.42%**, reflecting its vulnerability as a labour-intensive industry heavily reliant on the U.S. market. With 175,000 jobs at risk in this sector alone, the tariffs threaten livelihoods in export hubs like Gujarat, as thin margins make shipments unviable. The relations impact score of **3.88** indicates strong concerns about deteriorating bilateral ties, described as an “earthquake” by industry leaders, reflecting the sector’s exposure to U.S. trade policies. The severe impacts underscore the sector’s critical role in India’s export economy and its susceptibility to trade disruptions, with competitors like Sri Lanka potentially capturing market share, further eroding India’s trade surplus.

5. Pharmaceuticals: Resilient Due to Exemptions

The **pharmaceuticals** sector shows a modest revenue impact of **-4.40%** and a job impact of **-1.63%**, benefiting from tariff exemptions that preserve India’s position as a global supplier of generic drugs to the U.S. Despite this resilience, the high relations impact score of **4.05** suggests that businesses remain concerned about bilateral relations, possibly due to broader geopolitical tensions or fears of future policy shifts. The minimal economic impacts highlight pharmaceuticals as a stabilizing force in India-U.S. trade, but the elevated relations score indicates that even protected sectors are not immune to the broader trade war’s fallout, potentially affecting investor confidence.

6. Textiles: Hardest Hit Sector

The **textiles** sector faces the most severe revenue impact at **-32.59%**, reflecting its status as one of India’s largest export industries \$37.7 billion total, \$10.3 billion to the U.S. and its high exposure to tariffs. The job impact of **-13.23%** indicates significant layoffs in labour-intensive regions like Uttar Pradesh, with potential factory shutdowns threatening millions of livelihoods. The relations impact score of **3.82**, while slightly lower than other sectors, still reflects strong concerns about bilateral ties, likely due to the sector’s centrality to India’s export economy and the failure of trade negotiations. The severe impacts align with projections of a 30% cost disadvantage against competitors like Vietnam and Bangladesh, risking permanent market share losses and undermining India’s “China plus One” strategy.

7. Impact on India-U.S. Trade Dynamics

The sector-wise data confirms that the tariffs have significantly disrupted India-U.S. trade, with affected sectors agriculture, chemicals, gems and jewellery, textiles facing revenue declines of 23-33% and job losses of 13-15%, while exempt sectors electronics, pharmaceuticals) experience minimal impacts. This disparity reflects the targeted nature of the tariffs, which cover 55-66% of India’s exports, threatening up to \$48.2 billion in trade and potentially reducing total U.S.-bound shipments to under \$50 billion. The high relations impact scores 3.82-4.08 across all sectors underscore a unified perception of deteriorating bilateral ties, which could hinder future trade agreements and U.S. investments in India, particularly in manufacturing hubs. The trade disruptions exacerbate India’s economic challenges, including rupee depreciation and equity market volatility, while narrowing the \$45.8 billion trade surplus.

8. Implications and Broader Context

The sector-wise results validate the assumption that the tariff war disproportionately impacts labour-intensive sectors, threatening India’s export-driven growth and employment. Textiles and agriculture face the greatest risks, with potential GDP losses of up to 1% and millions of job cuts, while exempt sectors provide some stability. The consistent high relations scores reflect broader geopolitical tensions, including failed trade talks and U.S. objections to India’s Russian oil purchases, which undermine strategic partnerships like the Quad. India’s mitigation strategies, such as GST reforms \$20 billion, income tax cuts \$12 billion, and FTAs with the EU and UK, aim to offset losses by boosting domestic consumption and diversifying markets. However, the severity of impacts in key sectors suggests that SMEs may struggle without targeted fiscal support, such as export subsidies or low-interest loans. The data highlights the urgency of diplomatic efforts to resolve disputes and restore trade stability, while emphasizing the need for India to accelerate economic reforms to navigate this crisis and maintain its global trade position.



Discussion

The India-United States tariff war, which reignited in 2025 under President Donald Trump's administration, represents a significant escalation from earlier disputes in 2018-2019. Initially sparked by U.S. tariffs on steel and aluminium, the conflict has now evolved into a broader punitive measure, with tariffs reaching up to 50% on a wide array of Indian imports. This doubling comprising an initial 25% tariff announced in early August 2025 and an additional 25% penalty tied to India's purchases of Russian oil and defence equipment stems from U.S. accusations that such transactions indirectly fund Russia's war in Ukraine. India, however, views this as hypocritical, pointing to continued U.S. and European trade with Russia, and has prioritized its energy security amid global volatility. This discussion synthesizes the multifaceted impacts on the Indian economy, drawing from recent analyses, sectorial vulnerabilities, business challenges, and international relations. It interprets these effects in the context of India's resilience, policy responses, and broader global trade dynamics, while acknowledging limitations in current projections.

V. ECONOMIC IMPACTS: TRADE DISRUPTIONS, EXPORT LOSSES, AND MACROECONOMIC STRAIN

At the core of the tariff war's impact is the disruption to India's export-led growth model. The U.S. remains India's largest trading partner, with bilateral merchandise trade reaching \$129 billion in 2024, including \$87 billion in Indian exports and a \$45.8 billion U.S. trade deficit. The 50% tariffs affect approximately 55-66% of these exports, targeting non-exempt goods valued at around \$48.2-60.2 billion annually. Projections indicate a potential 43-70% decline in shipments from affected sectors, translating to overall export losses of \$37-48.2 billion in the current fiscal year. This could shave up to one percentage point off India's GDP growth, which has hovered around 6-8% in recent years, exacerbating challenges from global slowdowns and domestic unemployment rates 5.6% overall, 7.1% in urban areas as of June 2025. Sectorial vulnerabilities amplify these macroeconomic effects. Labour-intensive industries such as textiles, gems and jewellery, leather goods, footwear, seafood, agriculture including spices and basmati rice, chemicals, and furniture bear the brunt. These sectors, often concentrated in regions like Gujarat, Andhra Pradesh, Uttar Pradesh and West Bengal, face a 30% cost disadvantage against competitors like Vietnam, Bangladesh, Mexico, Turkey, Pakistan, Nepal, Guatemala, Kenya, and Sri Lanka. Exemptions for pharmaceuticals, electronics, petroleum products, semiconductors, steel, aluminium, and copper provide some relief, preserving India's edge in these high-value areas, but the overall trade imbalance could widen if U.S. imports from India plummet to under \$50 billion in fiscal 2026. Job losses emerge as a critical concern, with estimates ranging from 175,000 in gems and jewellery alone to up to 2 million across affected sectors in the near term. This is particularly acute in small and medium enterprises, which dominate these industries and lack the buffers to absorb shocks. For instance, shrimp farmers in Andhra Pradesh and carpet weavers in Uttar Pradesh risk factory shutdowns, while apparel exporters face unviable shipments. These losses could exacerbate social unrest, given India's youth bulge and urban unemployment pressures, potentially offsetting gains from discounted Russian oil imports which saved billions but now pale against export hits.

VI. IMPACTS ON BUSINESSES: COMPETITIVENESS, SUPPLY CHAIN SHIFTS AND OPERATIONAL CHALLENGES

Indian businesses, especially SMEs, are grappling with immediate operational disruptions. The tariffs render many products "commercially unviable," forcing exporters to either absorb costs eroding thin margins, in gems and jewellery or divert shipments to alternative markets, risking permanent market share loss. Exporters rushed shipments before the August 27 deadline, but long-term, competitors are poised to capture U.S. demand Ecuador and Indonesia for shrimp, Pakistan for basmati rice, and Vietnam for textiles. This undermines India's "China Plus One" strategy, where it positioned itself as a manufacturing alternative, attracting U.S. firms like Apple and Tesla.

Financially, the rupee depreciated to a three-week low, and equity markets suffered their worst session in three months pre-tariff implementation. Experts like Garima Kapoor of Elara Securities warn that "no Indian product can stand any competitive edge under such heavy import taxes," while Kirit Bhansali of the Gems and Jewellery Export Promotion



Council describes the situation as "an earthquake" traumatizing the industry. Larger firms may pivot to domestic markets or new FTAs but SMEs face existential threats, including shutdowns and unemployment spikes.

VI. STRAIN ON INTERNATIONAL RELATIONS: GEOPOLITICAL TENSIONS AND STRATEGIC PARTNERSHIPS

The tariffs mark a "low moment" in India-U.S. relations, described as a "trade embargo" and "earthquake" that could rupture decades of warming ties. Failed trade negotiations five rounds without agreement, with a sixth cancelled highlight divergences over agriculture, dairy, and market access. Geopolitically, this undermines the Quad alliance and U.S.-India cooperation against China, as India pivots toward self-reliance ("Swadeshi") and explores closer ties with Russia and even China e.g., Modi's potential SCO summit visit. Despite joint statements affirming bilateral enhancement, the punitive nature higher than on China (34%) or allies like South Korea (15%) signals "economic selfishness," per Modi, eroding trust.

India's Policy Responses: Mitigation Strategies and Resilience Building

India's responses emphasize domestic stimulus and diversification. Prime Minister Modi has urged "self-reliance," prioritizing "Made in India" goods and announcing a "massive tax bonanza" as a Diwali gift, including GST reforms simplifying to two tiers, cutting rates to 5-18% for essentials like food, textiles, and cement) worth \$20 billion, alongside \$12 billion in income tax cuts. These measures aim to boost consumption 60% of GDP and mitigate inflation, with analysts from Jeffries and Morgan Stanley predicting a "multiplier effect" on growth. Additional steps include favourable bank loans for exporters, rupee depreciation to enhance competitiveness, and accelerated FTAs with the EU, Latin America, Africa, and Southeast Asia. Experts like Rajeswari Sengupta advocate for less protectionism and more trade orientation, while the government eyes central bank rate cuts and salary boosts for public employees.

Robust domestic demand and diversified exports U.S. share is 18% of total provide buffers, potentially absorbing excess production. However, these responses may not fully offset losses, especially if competitors entrench in U.S. markets.

Broader Implications: Global Trade, U.S. Consumers, and Future Outlook

Globally, the tariffs reshape supply chains, benefiting rivals and raising U.S. consumer prices on apparel, shrimp, spices, and furniture. This aligns with Trump's "America First" agenda but risks backlash, as India and other Global South nations explore collective resistance. For India, the crisis could accelerate manufacturing reforms, though stagnant GDP share (15%) highlights structural hurdles.

Limitations include the regency of the tariffs, relying on projections rather than observed data, and potential biases in exporter estimates. Future outlook depends on diplomatic resolutions; a U.S. review could reduce the penalty, but prolonged tensions may entrench economic decoupling. Ultimately, while damaging, the tariff war underscores India's need for strategic autonomy in a multipolar world. The results underscore the tariff war's profound effects on the Indian economy. Businesses in affected sectors face a 30% cost disadvantage against competitors like Vietnam and Bangladesh, potentially leading to factory shutdowns and unemployment spikes. The projected \$37 billion export loss could outweigh savings from Russian oil purchases, exacerbating India's trade surplus with the U.S. (\$45.8 billion in 2024). Internationally, the tariffs strain relations, described as a "low moment" and "earthquake" in ties. While security cooperation persists amid China concerns, economic selfishness risks long-term partnership erosion. India's responses, such as rupee depreciation and market diversification, could cushion blows, with domestic absorption of excess production feasible given 6-7% GDP growth.

VII. CONCLUSION

The India-United States tariff war, which escalated dramatically in 2025 with the imposition of punitive 50% tariffs on a substantial portion of Indian exports, has undeniably inflicted considerable damage on the Indian economy. This conflict, rooted in U.S. frustrations over India's continued purchases of Russian oil and defence equipment amid the on-going Ukraine crisis, marks a significant rupture in what was once a burgeoning economic partnership. As of August



27, 2025, when the tariffs officially took effect, projections indicate that up to \$48.2 billion in Indian exports representing approximately 55-70% of India's shipments to its largest trading partner could be severely impacted, leading to a potential 43-70% decline in affected sectors and shaving as much as one percentage point off India's GDP growth. This economic blow extends beyond mere trade figures, permeating into job markets, supply chains, and investor confidence, while exacerbating existing challenges such as urban unemployment currently at 7.1% and inflationary pressures from global commodity volatility. The tariffs, described by Indian officials and analysts as a "trade embargo" and an "earthquake" for bilateral relations, underscore the fragility of global trade dependencies in an era of geopolitical tensions.

Empirical evidence from a primary survey of 100 Indian businesses further corroborates these assumptions of widespread negative impacts. Conducted across diverse sectors including textiles, gems and jewellery, agriculture, chemicals, pharmaceuticals, and electronics, the survey revealed an average revenue decline of -20.9%, with job losses averaging -10.5% in the immediate aftermath of the tariff announcement. Affected sectors like textiles and agriculture reported even steeper drops, with revenue impacts exceeding -30% and job reductions around -15%, highlighting the vulnerability of labour-intensive industries that employ millions in regions such as Gujarat, Andhra Pradesh, and Uttar Pradesh. Respondents overwhelmingly perceived deterioration in India-U.S. relations, scoring it at an average of 3.97 out of 5, with 97% indicating moderate to severe negative effects. This sentiment aligns with broader economic projections of up to 2 million job losses nationwide, particularly in SMEs that lack the resources to pivot quickly, and underscores the human cost of the conflict factory shutdowns, reduced wages, and heightened unemployment in export-dependent communities. While exempt sectors like pharmaceuticals and electronics fared better, with minimal impacts the overall business landscape reflects a consensus that the tariffs have eroded competitiveness, forcing many firms to absorb costs or risk losing U.S. market share to rivals such as Vietnam, Bangladesh, and Mexico.

To mitigate these adverse effects and foster resilience, India must adopt a multifaceted strategy emphasizing trade diversification, fiscal support for exporters, and sustained diplomatic efforts to resolve underlying disputes. Trade diversification stands as a critical pillar, involving accelerated negotiations for free trade agreements with alternative markets such as the European Union, the United Kingdom, Latin America, Africa, and Southeast Asia. For instance, redirecting exports from the U.S. toward these regions could offset losses, as evidenced by India's recent push for FTAs amid the crisis. Domestically, this could be complemented by promoting "Made in India" initiatives to absorb excess production through enhanced local consumption, supported by recent government measures like GST reforms and income tax cuts totalling \$32 billion, aimed at stimulating demand and easing inflationary burdens. Fiscal support for exporters should include targeted incentives, such as subsidized loans from banks, export credit guarantees, and rebates on duties for affected sectors. The government could expand schemes like the Production Linked Incentive to cover more industries, providing cash incentives for incremental sales and helping SMEs upgrade technology to compete globally. Additionally, allowing rupee depreciation already observed in the wake of the tariffs could enhance export competitiveness without triggering excessive inflation, provided it is managed alongside monetary policy adjustments like potential interest rate cuts by the Reserve Bank of India.

On the diplomatic front, India should prioritize high-level engagements to de-escalate tensions, building on joint statements that affirm the importance of the strategic partnership despite economic frictions. This could involve resuming stalled trade talks previously halted after five unsuccessful rounds to address U.S. concerns over market access in agriculture and dairy, while advocating for exemptions or phased reductions in tariffs. Leveraging multilateral forums like the World Trade Organization to challenge the tariffs as discriminatory, or exploring alliances with other Global South nations facing similar U.S. pressures, could amplify India's position. Prime Minister Narendra Modi's emphasis on "self-reliance" (Swadeshi) should be balanced with pragmatic diplomacy to preserve security cooperation under frameworks like the Quad, ensuring that economic disputes do not undermine shared interests in countering China. These efforts, if implemented cohesively, could not only cushion short-term shocks but also position India for long-term economic autonomy in a multipolar world.



Looking ahead, future research should systematically track actual post-2025 outcomes to refine these projections and inform policy evolution. Longitudinal studies could monitor export volumes, employment trends, and GDP contributions from affected sectors over the next 2-5 years, using real-time data from sources like the Ministry of Commerce and Industry or international bodies such as the IMF and WTO. Comparative analyses with past trade wars could reveal adaptation patterns, while econometric models incorporating variables like currency fluctuations and global supply chain shifts would provide deeper insights into resilience factors. Additionally, qualitative research on business sentiments and geopolitical dynamics could assess the long-term health of India-U.S. relations, evaluating whether the tariffs lead to permanent decoupling or eventual reconciliation. Given the reGENCY of the tariffs' implementation, such research is essential to validate assumptions from surveys like the one in this study and guide adaptive strategies in an increasingly volatile global trade environment. Ultimately, while the tariff war poses formidable challenges, it also presents an opportunity for India to accelerate structural reforms, diversify its economic base, and emerge stronger on the world stage.

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