

Trump's 50% Tariffs on Indian Exports: Impact on the Economy

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Tariffs on Indian Exports Latest News

- The US has imposed **50% tariffs on Indian exports effective August 27, 2025**, hitting key sectors like textiles, gems, jewellery, and shrimps, raising concerns over a trade and investment slowdown.

Introduction

- On **August 27, 2025**, the United States, under President Donald Trump, implemented **steep 50% tariffs on Indian merchandise exports**, significantly escalating trade tensions.
- These tariffs, applied across a wide range of labour-intensive and low-margin products, mark one of the sharpest trade restrictions India has faced in recent years.
- The move is expected to severely disrupt India's export performance, particularly in sectors like textiles, gems and jewellery, shrimp, carpets, and furniture.

- The rationale behind the additional tariffs lies in the US's objections to India's **purchases of Russian oil and defence equipment**, which the Trump administration cited as the basis for penalising India.
- However, the implications of this decision stretch far beyond geopolitical concerns, threatening millions of jobs, export revenues, and investment momentum under India's ambitious **Production Linked Incentive (PLI) schemes**.

Details of the US Tariffs

- The new tariff regime effectively doubles existing duties, taking **tariffs to over 60% in some categories**.
- Nearly **66% of Indian exports to the US**, valued at around \$59 billion in FY25, are now subject to the 50% tariff.
- According to the **Global Trade Research Initiative (GTRI)**, exports could plummet by as much as **40-45% in FY26**, reducing shipments to the US from \$87 billion in FY25 to \$49.6 billion.
 - **Duty-free Exports (30%)**: Pharmaceuticals (\$12.7 billion), electronics (\$10.6 billion), and petroleum products remain exempt.
 - **Moderate Tariffs (4%)**: Auto parts will face 25% tariffs.
 - **Heavy Tariffs (66%)**: Apparel, textiles, gems and jewellery, shrimps, handicrafts, carpets, and furniture will face the brunt.

Sectoral Impact on India

- The US is India's **largest export market**, accounting for nearly **20% of total merchandise exports** and about **2% of GDP**.
- Labour-intensive sectors with high US dependence are at maximum risk:
 - **Textiles & Apparel**: Units in Tirupur, Noida, and Surat have already reported halts in production. With the US accounting for nearly **60% of home textiles exports** and **50% of carpet exports**, the fallout could be devastating.
 - **Gems & Jewellery**: Exports worth over **\$10 billion** to the US (30% of the industry's total) face erosion, raising fears of widespread job losses.
 - **Shrimps**: The US contributes nearly **48% of revenue** for Indian shrimp exporters, making the marine sector highly vulnerable.
 - **Handicrafts & Furniture**: Both industries, dependent on American demand, risk sharp revenue contractions.
- According to industry estimates, export volumes from these affected sectors could plunge by up to **70%**, leading to widespread unemployment, particularly for low-skilled workers.

Implications for India's PLI Push and Capex Momentum

- The timing of the US tariffs is particularly sensitive, as India is banking on the **PLI scheme to boost manufacturing and exports** in high-value sectors.
- However, the tariffs could derail capital-intensive industries by deepening the private capex slowdown:
 - **Weak PLI Uptake in Key Sectors**: Applications for advanced chemistry cells, solar PV modules, and drones have lagged due to high investment needs.

- **Investor Caution:** Tariff-related uncertainty has made firms wary of long-term commitments in export-dependent sectors.
- **Crisil Analysis:** Nearly **50% of planned industrial capex** is exposed to global trade risks, including US tariffs and EU climate policies.
- While lower capex-intensive sectors like food processing and pharmaceuticals under PLI have seen strong uptake, sectors like electronics, solar, and batteries face setbacks that could delay India's manufacturing growth trajectory.

Macroeconomic and Geopolitical Dimensions

- The US tariffs could cut India's **GDP growth down from 6.5% to 5.6%**, according to trade experts.
- With competitors like **Vietnam, Bangladesh, and Cambodia** benefiting from lower tariffs, India risks losing its competitive edge in critical export markets.
- Geopolitically, the tariffs underline the **fragile nature of India-US trade ties**, where strategic convergence on security is increasingly clashing with protectionist economics.
- Moreover, with Trump threatening **200% tariffs on pharmaceuticals** unless companies localise production in the US, further disruptions cannot be ruled out.

Way Forward

- Despite the grim outlook, India retains some advantages:
 - **Domestic Economy:** With exports forming only **20% of GDP**, India is less vulnerable compared to Vietnam (90%).
 - **Diversification Opportunities:** Strengthening trade with the EU, ASEAN, Africa, and the Middle East can partially offset US losses.
 - **Policy Measures:** Exporters are demanding **duty drawback schemes, loan moratoriums, and fast-tracking of Free Trade Agreements (FTAs)**, especially with the EU, to cushion shocks.
- Experts argue that India must also **accelerate ease-of-doing-business reforms, tax rationalisation, and logistics infrastructure improvements** to remain competitive globally.

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