

US Tariffs on Indian Exports: Challenges and Opportunities

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US Tariffs Latest News

- The US has imposed steep **50% tariffs on Indian exports** since August 27, hitting key sectors like textiles, gems, and jewellery, and prompting calls for trade diversification.

Introduction

- India is facing a significant external trade challenge as the United States has imposed steep **50% tariffs on Indian goods exports**.
- This development comes at a time when India's export sector has grown increasingly reliant on the American market, which has remained the country's largest trading partner for four consecutive years.
- The tariffs have not only raised questions about India's dependence on the US but have also triggered renewed debates on trade diversification, reforms, and the possibility of joining multilateral trade blocs.

Impact of US Tariffs on Indian Exports

- The 50% tariff makes India's **labour-intensive and low-margin exports**, such as textiles, gems, jewellery, shrimps, furniture, and carpets, uncompetitive in the American market.
- Many small and medium exporters, particularly in hubs like **Tirupur, Surat, and Noida**, have already halted production due to falling demand and shrinking cost competitiveness.
- Although exports to the US account for less than 2% of India's GDP, the **employment impact** is disproportionately large, given that the affected sectors are among the most labour-intensive.
- Competitors such as **Vietnam, Bangladesh, and Cambodia** are poised to benefit from India's losses, as they currently face lower US tariffs.

India's Overdependence on the US Market

- The latest tariff action has exposed the risks of India's growing reliance on a single export destination.
- As of 2024, the US accounted for **18% of India's exports**, up from 11% in 2010. By contrast, China consciously reduced its dependence on the US by diversifying its export basket, with its share of exports to the US falling from 20% to 14% in the same period.
- This concentration has given the US significant leverage over India's trade policy.
- Until now, Indian exporters enjoyed relatively smooth access to the US market, with average tariffs of just 4% and minimal non-tariff barriers.
- That comfort discouraged India from aggressively pursuing **alternative export destinations or multilateral trade agreements**.

Policy Space for Reform and Diversification

- The crisis has forced policymakers to reconsider three long-pending issues:
 - **Reducing dependence on the US market** by aggressively pursuing trade with other regions, including **Africa, Latin America, and Southeast Asia**.
 - **Exploring multilateral trade deals**, such as the **Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)**, where key members like Japan, Australia, and ASEAN nations are supportive of India's entry.
 - **Reframing India-US trade negotiations** by highlighting the broader economic relationship. While the US claims a goods trade deficit, it actually enjoys a **\$40 billion overall surplus** with India when revenues from digital services, education, financial activities, royalties, and defence are considered.

Domestic Measures to Cushion the Impact

- In the short term, exporters have demanded that the government **facilitate domestic procurement** by large buyers such as the Indian Railways and public sector undertakings.
- The Centre is also considering a **relief package with cheaper credit**, though the effectiveness of such measures remains uncertain without clarity on how long the tariffs will persist.

Positive Outcomes and Opportunities

- **Trade Reform Momentum:** The tariffs could accelerate much-needed reforms in India's trade structure, such as lowering tariffs on intermediate goods to make domestic industries more competitive.
- **Multilateral Leverage:** India is better placed today to negotiate multilateral deals than during the RCEP talks, thanks to its greater willingness to adopt a "structured and balanced" approach to market access.
- **Diversification Push:** With the US market becoming riskier, India is likely to expand its trade footprint in **Europe, Africa, and Latin America**, while also strengthening its presence in digital services and high-value manufacturing.

Source: IE

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