

Trump's Global Tariff Surcharge - Implications for India and World Trade

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Trump's Global Tariff Surcharge Latest News

- Following the judicial setback to his tariff policy, U.S. President Donald Trump announced a temporary blanket tariff surcharge of **15%** (from 10% earlier) on global imports for 150 days, invoking powers under the Trade Act of 1974.
- The move came a day after the Supreme Court of the United States invalidated his sweeping reciprocal tariffs imposed under the International Emergency Economic Powers Act (IEEPA).
- The decision has significant implications for India-U.S. trade relations, global trade flows, and the ongoing negotiations for a bilateral trade agreement.

Background

- **Supreme Court verdict:**
 - The U.S. Supreme Court struck down the administration's reciprocal tariff regime under IEEPA, ruling that the **legal basis** for broad tariff imposition was inadequate.
 - The verdict would have reduced the average U.S. tariff rate from 15.3% to 8.3%.

- To circumvent the ruling, the U.S. administration invoked Section 122 of the Trade Act, 1974, which allows temporary import surcharges to address international payments imbalances.
- **New tariff regime:**
 - 15% ad valorem surcharge on imports, to be effective from February 24, and valid for 150 days.
 - It applies uniformly to all countries, including India.

Legal Basis and Exemptions

- **Section 122 of the Trade Act, 1974:**
 - It empowers the U.S. President to impose temporary import surcharges, restrict imports, and address balance-of-payments problems.
 - The proclamation justified the tariffs as necessary to correct global trade imbalances.
- **Goods exempted from tariffs:**
 - Certain sectors were excluded due to domestic economic needs, For example,
 - Strategic, industrial, and technology goods
 - Critical minerals and metals
 - Energy and energy products
 - Natural resources and fertilizers
 - Aerospace products
 - Certain electronics
 - Pharmaceuticals and ingredients
 - Vehicles and vehicle components
 - Agricultural products
 - Beef, Tomatoes, Oranges
 - These exemptions reflect U.S. supply-chain dependencies and industrial priorities.

Impact on India

- **Tariff changes:**
 - The new tariff rate (15%) is lower as compared to the previous rate (18%).
 - Earlier effective tariff under IEEPA (~22.3%).
 - Potential tariff after court verdict (without surcharge) – ~8.2%.
 - Thus, India **benefits** compared to earlier tariffs, but **loses** potential gains from the court ruling.
- **Government response:** India's Commerce Ministry stated that it is studying implications, assessing impact on exports and trade negotiations.
- **Implications for India-U.S. trade deal:**
 - **Changing negotiation dynamics:** India and the U.S. are negotiating an interim trade agreement. The Supreme Court ruling has altered tariff expectations. The U.S. administration has signalled –
 - India will continue to pay tariffs
 - The U.S. expects market access concessions
 - **Strategic significance:** The tariff policy may influence market access negotiations, rules of origin, supply-chain diversification, and strategic economic alignment.

Global Trade Implications

- **Major exporters** such as China, India, Brazil, Indonesia, and Vietnam would have seen double-digit reductions in tariff burden.
- **Smaller economies** like Myanmar, Laos, Serbia, and Tunisia would have experienced over 20 percentage point reductions.
- The surcharge therefore **preserves** higher U.S. tariff protection levels.

Challenges

- **Trade uncertainty:** Frequent policy changes increase unpredictability for exporters. Temporary tariffs complicate long-term contracts.
- **Protectionism:** Expansion of tariff tools indicates rising economic nationalism. Risks fragmentation of global trade.
- **Impact on Indian exporters:** Affected sectors may include engineering goods, textiles, chemicals, and auto components.
- **Legal and institutional concerns:** Tension between executive power and judicial oversight in U.S. trade policy.
- **Negotiation pressure:** Tariffs may be used as leverage in India-U.S. trade negotiations.

Way Forward

- **For India:** Accelerate conclusion of India-U.S. trade agreement. Diversify export markets (EU, ASEAN, Africa). Strengthen domestic manufacturing competitiveness. Use WTO-compatible trade diplomacy.
- **For global trade:** Strengthen rules-based trade order. Reduce unilateral tariff actions. Enhance multilateral cooperation through WTO reform.

Conclusion

- The U.S. administration's decision to impose a temporary 15% global tariff surcharge after the Supreme Court verdict reflects the growing use of domestic legal tools to pursue **protectionist trade policies**.
- While India faces a lower tariff rate than before, it loses the opportunity for significantly reduced duties.
- The development underscores the increasing role of geopolitics and **economic nationalism** in shaping global trade, making strategic trade diplomacy essential for India's economic interests.

Source: IE

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