

India-US Trade Dispute and Its Impact - Explained

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Trade Dispute Latest News

- The United States has initiated **Section 301 investigations against India** and several other economies to examine whether their trade practices harm U.S. commerce.

Background: India-US Trade Relations

- India and the United States share one of the largest bilateral trade relationships in the world.
- The US remained India's largest trading partner for the fourth consecutive year in 2024-25, with **bilateral trade valued at \$131.84 billion**.
- However, despite growing economic ties, trade disputes occasionally arise over tariffs, market access, and industrial policies.
- The recent investigation launched by the U.S. government represents one such development in the evolving trade relationship between the two countries.
- The investigation has raised concerns about potential new tariffs that could affect Indian exports to the U.S.

Current Tariff Situation in the United States

- The background to the investigation lies in recent developments in the U.S. tariff regime.
- In February 2026, the U.S. Supreme Court ruled against the use of the **International Emergency Economic Powers Act (IEEPA)** by the U.S. President to impose reciprocal tariffs on trading partners.
- Before this ruling, India had been subjected to reciprocal tariffs of up to 50% from August 2025, which were later reduced to 25% until February 2026.
- Following the court decision, the U.S. administration imposed a temporary 10% tariff on imports from all countries for 150 days under Section 122 of the Trade Act of 1974.
- However, the U.S. government also indicated that other legal provisions, such as Section 301, could be used to introduce additional tariffs if required.

Section 301 of the U.S. Trade Act

- Section 301 of the Trade Act of 1974 allows the U.S. government to investigate and respond to foreign trade practices that are considered **unfair, discriminatory, or harmful to U.S. businesses**.
- Under this provision, the **Office of the United States Trade Representative (USTR)** can examine policies of foreign governments that restrict U.S. commerce.
- If such practices are confirmed, the U.S. government may take retaliatory actions such as imposing tariffs or other trade restrictions.
- Section 301 has previously been used in trade disputes with several countries, including China.

First Investigation: Excess Manufacturing Capacity

- On March 11, 2026, the U.S. Trade Representative initiated a Section 301 investigation against 16 economies, including India.
- The investigation aims to determine whether these countries have developed excess manufacturing capacity that allows them to export large volumes of goods to the U.S., thereby harming American industries.
- In India's case, the U.S. government cited the country's **bilateral trade surplus with the United States**, which it estimated at **\$58 billion in 2025**.
 - However, Indian government data suggests that the surplus was around **\$42.2 billion** during the same period.
- The U.S. investigation also identified certain sectors where India may have surplus production capacity, including Solar modules, Petrochemicals, Steel and Manufacturing sectors such as textiles and automotive goods.
- According to the U.S. order, India's solar module manufacturing capacity is reportedly almost three times higher than domestic demand, indicating the possibility of export-driven production.

Second Investigation: Forced Labour Concerns

- A day after the first investigation, the U.S. announced a **second Section 301 investigation covering 60 countries**, including India.

- This investigation aims to determine whether countries have taken adequate steps to prevent the **import of goods produced through forced labour**.
- The U.S. government argues that the failure to eliminate such practices could negatively affect American workers and businesses.
- This inquiry will evaluate whether the participating countries have implemented effective policies to prevent forced labour in global supply chains.

Possible Impact on Indian Industries

- The outcome of the investigations could have implications for several Indian export sectors.
- For example, sectors such as **steel, aluminium, automobiles, and auto components** already face significant tariffs in the U.S. market.
- In addition, India's **textiles and apparel sector** has expressed concerns about rising uncertainty in global trade conditions.
- Industry representatives have noted that the new investigations could add further pressure on export-oriented industries that are already facing global economic challenges.
- However, trade experts have emphasised that the investigations will likely take several months to conclude and may not have immediate consequences.

Responses from Governments and Industry

- So far, the Indian government has not issued an official public response to the investigations.
- In contrast, the European Union, which is also part of the investigation, has strongly reacted and warned that it will respond proportionately if trade commitments are violated.
- Indian industry leaders have adopted a cautious approach. Experts have stated that these investigations are typically lengthy processes and do not necessarily lead to immediate trade restrictions.

Source: TH

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