

## Trade Turbulence: India's Economic Journey Under U.S. Tariff Influence

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### Abstract:

This paper explores the trade turbulence experienced by India due to U.S. tariff policies, particularly during Donald Trump's presidency—from his first term (2017–2021) through the beginning of his second term in 2025. It analyses how the U.S. administration's protectionist approach, aimed at reducing the trade deficit and safeguarding domestic industries, has influenced India's economic journey. The study focuses on key sectors such as agriculture, manufacturing, and services to assess the effects of these tariffs on India's export competitiveness, trade relations, and market access. The research highlights broader economic consequences, including shifts in trade patterns, changes in foreign direct investment (FDI), and India's strategic responses to an evolving global trade landscape. While India's exports in areas like textiles, pharmaceuticals, and IT services remained resilient, sectors such as steel, aluminum, and agriculture encountered significant setbacks. Nevertheless, India responded by diversifying its trade partnerships and exploring new market opportunities. The paper underscores the complexities of modern trade protectionism and offers insights into how emerging economies like India can navigate such external shocks while maintaining a trajectory of sustainable growth. This study provides a critical evaluation of India-U.S. trade dynamics and the enduring impact of tariff-driven disruptions on India's economic prospects.

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### Introduction

The global trade landscape has been significantly shaped by the evolving policies of major economic powers, and the United States, under the leadership of Donald Trump, marked a notable shift in trade dynamics. His administration (2017-2021) emphasized a protectionist approach that challenged long-established trade agreements, aiming to reduce trade imbalances, bring jobs back to the U.S., and protect domestic industries. Central to this strategy was the imposition of tariffs, particularly targeting China and other key trading partners, including India. This approach, coined as "America First," sought to address what the U.S. perceived as unfair trading practices and an erosion of its economic advantage in the global market. Trump's tariff policies were intended to safeguard U.S. manufacturing sectors and create a more favourable trade environment for American businesses. The imposition of tariffs had wide-ranging effects not only on the U.S. economy but also on its trading partners, leading to changes in global supply chains, market access, and economic strategies. India, as one of the largest emerging economies, was deeply impacted by these trade measures. As a major exporter of goods

like textiles, agricultural products, and information technology services, India faced both challenges and opportunities as a result of the U.S. tariff regime. India's economic growth, heavily reliant on its export sector, experienced fluctuations as tariffs altered the competitiveness of Indian goods in the U.S. market. The effect of the Trump administration's tariff policy on the Indian economy was multifaceted. While Indian industries such as pharmaceuticals, textiles, and information technology found continued demand in the U.S. market, sectors such as steel, aluminium, and agriculture experienced significant disruptions. The imposition of higher tariffs on these goods not only made Indian exports less competitive but also strained the diplomatic relationship between the two nations. However, the trade relationship continued to evolve, with both countries seeking new avenues for cooperation in the face of tariff challenges. In 2025, with Trump's re-election and continued leadership, the U.S. maintained its protectionist stance, with further tariff measures being enacted on a wide array of imports. This further altered the trade dynamics between India and the U.S., prompting India to explore alternatives to mitigate the impact of these tariffs. The new tariff measures impacted various sectors in India, leading to shifts in trade patterns, adjustments in the global supply chain, and diversification in trade partners.

This paper seeks to analyse the impact of Trump's tariff policy on the Indian economy, focusing on the consequences for key sectors such as agriculture, industry, and services. The study will also explore the broader implications for India-U.S. trade relations in 2025, examining how both countries have adapted to the changing trade environment and how India's economic strategies have evolved in response to U.S. tariff policies. By understanding these dynamics, the paper aims to provide insights into the broader implications of protectionist trade policies in an increasingly interconnected global economy.

### **Significance of the Study**

The significance of this study lies in its timely and comprehensive examination of the impact of Donald Trump's tariff policies on the Indian economy, particularly in the context of the evolving trade dynamics between the United States and India in 2025. As the U.S. has historically been one of India's largest trading partners, understanding how tariff measures affect key sectors such as agriculture, manufacturing, and services is crucial for policymakers, businesses, and economic analysts in India. By analysing the consequences of these tariffs, the study provides insights into how protectionist trade policies influence India's trade competitiveness, economic growth, and its broader foreign trade strategy.

This study is particularly relevant in the context of global trade tensions and protectionism that have characterized recent years. As India seeks to strengthen its position in the global economy and diversify its trade partners, understanding the specific impact of U.S. tariffs helps the country adapt to the changing trade environment and develop effective policies for mitigating the negative effects of these trade barriers. Furthermore, the study contributes to the academic understanding of how tariff policies of major global powers can reverberate through the economies of emerging markets like India, offering a comparative lens for similar economies dealing with trade restrictions.

The significance of the study arises due to the impotence of the U.S.-India trade relationship, which is central to both countries' economic and geopolitical strategies. As the U.S. continues to enforce tariffs under Trump's administration in 2025, India must assess how these measures affect its export-oriented industries and adapt to potential shifts in trade flows. Additionally, by exploring sector-specific impacts, the study offers actionable insights for Indian industries, especially those directly affected by tariff increases, such as textiles, agriculture, and steel. This can help inform strategic decisions regarding trade diversification, market access, and the pursuit of new economic partnerships. Lastly, the study holds broader significance by highlighting the role of tariffs

in shaping global trade policies and the potential long-term consequences of protectionism in an increasingly interconnected world.

### **Background of the Tariff Policy during Trump's Presidency (2017-2021)**

During Donald Trump's presidency (2017-2021), the U.S. adopted a more protectionist trade policy aimed at reducing trade deficits and reshoring American manufacturing jobs. This approach was largely encapsulated in Trump's "America First" doctrine, which sought to reassert U.S. economic dominance and challenge what his administration perceived as unfair trade practices by other countries. One of the core strategies for achieving these goals was the imposition of tariffs on various imports, including Chinese goods, steel, aluminium, and other products.

In 2018, Trump initiated a trade war with China by imposing tariffs on \$50 billion worth of Chinese goods, citing concerns over intellectual property theft, forced technology transfers, and trade imbalances. This escalated into broader tariffs on hundreds of billions of dollars of Chinese imports, with the U.S. targeting industrial goods, electronics, machinery, and consumer products. The policy led to reciprocal tariffs from China and created significant disruptions in global supply chains. The Trump administration also imposed tariffs on steel and aluminium imports from various countries, including India, Canada, and the European Union, citing national security concerns under Section 232 of the Trade Expansion Act of 1962. These measures were aimed at protecting U.S. manufacturers and reducing the dependency on foreign steel. In addition, the administration renegotiated NAFTA (North American Free Trade Agreement), which was replaced by the United States-Mexico-Canada Agreement (USMCA). Trump's tariffs were part of a broader "trade war" strategy designed to address perceived imbalances and challenge the existing global trading system. While some industries in the U.S. saw benefits from tariffs (such as domestic steel producers), the overall economic impact was mixed, with many consumers and industries facing higher costs and retaliatory tariffs from trade partners.

### **Tariff Policy from 2025 Under Trump's Presidency**

In 2025, following Trump's re-election, the U.S. continued its emphasis on protectionist economic policies, building upon the foundation laid during his first term. The 2025 tariff policy primarily focused on reinforcing the "America First" strategy, with increased tariffs on a wider range of imported goods and renewed efforts to reduce the U.S. trade deficit. A significant component of the 2025 policy was the introduction of new tariffs on technology imports, pharmaceuticals, and select agricultural products, especially targeting countries like China, India, and the European Union. Trump sought to further reduce reliance on foreign suppliers for critical sectors, such as defence, technology, and pharmaceuticals. While some of these measures were designed to protect U.S. jobs, they also led to a more fragmented global trading environment and strained relations with several of the U.S.'s key trading partners.

The 2025 tariff measures also included the re-implementation of tariffs on steel and aluminium imports, aimed at fortifying the U.S. manufacturing base and countering unfair trade practices. These tariffs continued to affect a broad range of countries, including India, with the goal of revitalizing American industry by making imports more expensive and encouraging the domestic production of these goods.

### **Overview of India-U.S. Trade Relations in 2025**

In 2025, India and the United States shared a complex and evolving trade relationship. The U.S. continued to be one of India's largest trading partners, with bilateral trade between the two countries expanding in recent years. However, the relationship was also impacted by Trump's tariff policies, which altered the dynamics of trade between the two nations.

**Trade in Goods and Services:** As of 2025, India's exports to the U.S. remained substantial, with key sectors including information technology, pharmaceuticals, textiles, engineering goods, and agricultural products. However, the imposition of tariffs, particularly on Indian steel, aluminum, and certain agricultural exports, affected the competitiveness of these goods in the U.S. market. Indian exporters, especially in sectors like textiles, suffered from higher duties and compliance costs, which made it more difficult to maintain or expand market share in the U.S.

**Agricultural Exports:** India's agricultural exports, including rice, spices, tea, and fruits, were directly impacted by the 2025 tariffs. U.S. tariffs on agricultural goods raised the cost for Indian exporters, resulting in a decline in demand for some products. For instance, the cost of exporting mangoes, cashews, and spices increased, and several U.S. states implemented stricter quality control measures, which further hampered India's agricultural export potential.

**Industrial Goods:** India's industrial exports to the U.S., including engineering goods, machinery, and chemicals, faced challenges as the tariffs on steel and aluminum remained in place. India, as one of the largest producers of steel and aluminum, was directly affected by the higher tariffs imposed by the U.S. on these metals, leading to a decrease in export volumes of these goods. Moreover, Indian small and medium-sized enterprises (SMEs) in industrial sectors struggled to cope with the higher costs associated with the tariffs.

**Technology and Services:** While tariffs on goods remained a significant issue, the services trade between India and the U.S. continued to thrive. India's IT sector remained a major exporter to the U.S., with services such as software development, business process outsourcing, and technical consulting maintaining strong demand. However, the technology sector faced challenges due to Trump's focus on reducing foreign competition in key industries, including software and technology infrastructure.

**Overall Trade Balance:** In 2025, India's trade balance with the U.S. showed a slight contraction due to the tariff barriers. India's exports to the U.S. fell slightly by 6.5% compared to previous years, primarily driven by lower demand for industrial goods and agricultural exports. Meanwhile, imports from the U.S. decreased by 5.6%, indicating a reduced dependency on U.S. goods, but the overall trade relationship remained crucial to both countries.

**Geopolitical and Economic Context:** Geopolitically, the India-U.S. relationship continued to strengthen in areas such as defence cooperation and regional security, particularly in the Indo-Pacific region. However, economic relations remained tense due to trade imbalances and tariff-related issues. India sought to diversify its trade partnerships, reducing dependence on the U.S. market by increasing exports to countries in Southeast Asia, Africa, and the Middle East.

In summary, while India remained a key trading partner for the U.S. in 2025, the tariff policies under Trump's administration had a tangible impact on India's trade balance, sectoral exports, and industrial competitiveness. India's reliance on the U.S. market in certain sectors decreased, and it sought alternative markets to mitigate the effects of the tariffs. As both countries navigated these challenges, trade relations continued to evolve in the broader context of global economic and geopolitical shifts.

### Objectives of the Study

1. To analyse the recent changes in U.S. tariff policy under President Trump (2025) and understand their specific features.
2. To examine the trends in India-U.S. trade in agricultural and industrial goods before and after the imposition of tariffs.
3. To assess the impact of the 2025 U.S. tariff policy on India's export and import sectors.

4. To evaluate the sector-specific impact on Indian industries, especially small and medium enterprises (SMEs) and agriculture-based exports.
5. To suggest policy recommendations for India to mitigate the adverse effects of the tariff policy and enhance trade resilience.

### Scope and Limitations of the Study

This paper provides a comprehensive analysis of the impact of Donald Trump's tariff policy on the Indian economy, focusing on the period from his first term (2017–2021) to the resurgence of protectionist measures in 2025. The scope encompasses an evaluation of India-U.S. trade dynamics, particularly in agriculture, manufacturing, and services, and investigates how tariffs influenced export competitiveness, foreign direct investment, and policy responses. The study employs a mixed-methods approach using secondary data and case studies to capture both macroeconomic trends and sector-specific impacts. However, the study is limited by its reliance on secondary data, which may not fully reflect real-time market adjustments or informal trade responses. Additionally, the analysis is constrained by the availability of recent and disaggregated trade statistics for 2025, which may affect the precision of impact assessment. While the qualitative analysis enriches the findings, the exclusion of primary stakeholder interviews restricts insights into firm-level adaptive strategies. Despite these limitations, the research offers valuable policy implications and sets the foundation for further in-depth, longitudinal studies on trade protectionism's long-term effects.

### Literature Review

Several scholars have explored the implications of tariff-driven protectionism and its global spillovers, particularly in the context of the United States under President Donald Trump. Bown and Kolb (2020) analysed the consequences of the U.S.-China trade war, highlighting how unilateral tariff measures distorted global trade flows and created uncertainties for exporters across the world, including India. Similarly, Evenett and Fritz (2019) argued that the rise in global protectionism led by advanced economies undermined the multilateral trade system and encouraged retaliatory trade barriers, often at the cost of developing countries' export competitiveness. In the Indian context, Kumar and Chadha (2021) examined how Trump-era tariffs adversely impacted India's access to the U.S. market, particularly after the withdrawal of Generalized System of Preferences (GSP) benefits, leading to a decline in exports from key sectors like textiles and auto components. Another significant contribution by Dasgupta (2022) focused on the vulnerability of Indian SMEs to tariff shocks, emphasizing that smaller exporters often lack the financial and logistical buffers to navigate sudden increases in trade costs. Moreover, Srivastava and Reddy (2023) provided a sectoral analysis of India's response to tariff barriers, underscoring the importance of diversification and bilateral trade diplomacy as strategic countermeasures.

These studies provide a foundation for this paper, which extends the discussion by offering an updated, sector-specific examination of Trump's 2025 tariff policies and their economic repercussions for India, particularly emphasizing the strategic shifts in trade policy and market orientation that followed.

### Research Gap

While existing literature has extensively examined the broader implications of Trump-era protectionism and the U.S.-China trade war, limited scholarly attention has been paid to the specific impact of Trump's renewed tariff measures in 2025 on India's sectoral exports, small and medium enterprises (SMEs), and strategic trade realignments. Most prior studies focus on the 2017–2021 period and overlook the evolving trade patterns and policy responses in the context of Trump's second term. Furthermore, there is a lack of detailed empirical analysis combining both quantitative trade data and qualitative sectoral insights

to assess the real-time effects on India's export competitiveness and economic diplomacy. This paper addresses this gap by providing an up-to-date, sector-specific evaluation of India-U.S. trade dynamics post-2025, offering fresh insights into the resilience and adaptability of the Indian economy amidst renewed global protectionist trends.

### Methodology

This study adopts a mixed-methods approach, combining quantitative trade data analysis with qualitative content review to examine the impact of Trump's 2025 tariff policies on the Indian economy. Secondary data from sources such as the Ministry of Commerce and Industry, USTR, UN Comtrade, and reputed news agencies provide the foundation for the analysis. Quantitative data on trade volumes and sector-wise exports/imports (2023–2025) are assessed using descriptive and comparative tools to track shifts in India-U.S. trade patterns. To complement this, qualitative analysis of policy documents, government statements, and case studies (e.g., Kashmiri carpets, engineering SMEs) captures the broader economic and social implications. This approach is justified by the recent nature of the policy, the availability of reliable secondary data, and the need for both numerical trends and contextual understanding. The integration of methods enhances analytical depth and provides practical relevance for policymakers and stakeholders navigating the evolving global trade scenario.

### Findings of the Study

Based on the official data available from the Ministry of Commerce and Industry (India) and related trade agencies, let us analyse the impact of Trump's tariff policies on the Indian economy, especially from 2019 and into his resumed term in 2025:

#### 1. Loss of GSP Benefits

The withdrawal of India's Generalized System of Preferences (GSP) status by the U.S. in 2019 significantly affected over \$5.6 billion worth of Indian exports. Key sectors such as textiles, gems and jewellery, and auto components were particularly hit. Textile and apparel exports to the U.S. dropped by 12%, while jewellery exports declined by around 8.5% between 2020 and 2022. The auto component industry also experienced a 6% drop in U.S.-bound shipments due to increased tariff costs, making Indian goods less competitive in American markets.

#### 2. Steel and Aluminum Tariffs

India faced adverse consequences from the U.S.'s imposition of 25% tariffs on steel and 10% on aluminum, a policy that began in 2018 and was reinforced in 2025. Indian exports of steel to the U.S. declined from \$372 million in 2018 to \$282 million in 2023. This was especially detrimental to steel-producing states like Odisha and Jharkhand, where export-oriented firms reported a 5–7% dip in output due to the reduced demand from the U.S. market.

#### 3. Agricultural Exports

Agricultural trade tensions between India and the U.S. were exacerbated by Trump's push for greater market access for American agricultural and dairy products. India's resistance, citing sanitary and religious standards, created a deadlock. In 2023, India exported \$3.2 billion worth of agricultural goods to the U.S., but potential gains, especially in the dairy segment, remained unrealized. In retaliation, India imposed steep tariffs on 28 U.S. products—including 120% on walnuts and 70% on apples—causing a 15% decline in U.S. agricultural exports to India in 2024.

#### 4. Investment and Business Sentiment

The trade uncertainties during Trump's presidency negatively affected investor confidence. While the U.S. continues to be a major investor, FDI inflow into India

decreased from \$13 billion in 2021 to \$10.6 billion in 2023. A FICCI survey in 2024 revealed that 68% of Indian SMEs with exposure to U.S. markets experienced negative impacts. Indian startups, especially in health-tech and AI sectors, reported a fall in overseas earnings by 9–11% between 2023 and 2024 due to their reliance on American clients and partners.

### **5. India's Response and Trade Policy Adjustments**

India responded with retaliatory tariffs on 28 U.S. items, including almonds, apples, and walnuts, causing an estimated \$290 million in losses for U.S. exporters. Simultaneously, India made a strategic shift in its export policy by diversifying trade destinations. Exports to Southeast Asia and Africa grew by 8.9% and 6.3% respectively from 2022 to 2024. India also strengthened regional partnerships, with intra-regional trade within BIMSTEC increasing by 12%. Although India sought a limited trade deal with the U.S., unresolved issues in digital services and agriculture stalled the negotiations.

### **6. Long-Term Implications**

The Trump-era trade policies prompted India to pursue strategic autonomy in trade by reducing its reliance on the U.S., whose share in India's exports dropped from 17.8% in 2020 to 15.2% in 2024. This period also witnessed a stronger push toward self-reliance under the "Atmanirbhar Bharat" initiative, resulting in a 23% increase in domestic mobile manufacturing. Moreover, India's service sector, particularly in IT and software, remained resilient. Services exports to the U.S. rose from \$85 billion in 2022 to \$96 billion in 2024, with sectors like SaaS and fintech helping cushion the negative effects of declining goods trade.

### **Analysis of the recent changes in U.S. tariff policy under President Trump (2025) and understand their specific features**

In 2025, under President Trump's second term, the U.S. administration introduced a fresh wave of protectionist tariffs, with an emphasis on "America First" industrial revival. Tariff hikes of 10% to 25% were imposed on a wide range of imports, including steel and aluminium, pharmaceutical intermediates, auto components, and select agricultural goods. The stated objective of the policy was to reduce U.S. trade deficits and encourage domestic manufacturing, but it raised concerns among key trade partners including India, China, and the EU.

#### **1. Higher Rejection Rates and Compliance Costs**

Following the imposition of new tariffs by the U.S. administration in 2025, Indian exporters faced a surge in non-tariff barriers such as stricter documentation requirements, product origin certification, and enhanced quality checks. These regulatory changes led to increased compliance costs, especially for small and medium-sized enterprises (SMEs). Many exporters reported delays at U.S. ports, higher rejection rates of consignments, and added costs associated with adapting to the updated standards. For example, exporters of chemicals, garments, and food items encountered additional hurdles in securing product clearances, resulting in lost business opportunities and disrupted supply chains.

#### **2. Loss of Price Competitiveness**

The 10–25% tariffs on various categories of Indian goods significantly eroded their competitiveness in the U.S. market. Indian products such as textiles, leather items, small auto components, and processed foods became more expensive compared to similar offerings from countries with preferential trade access to the U.S., such as Vietnam and Mexico. Consequently, Indian manufacturers lost crucial contracts and market share. The Federation of Indian Export Organisations (FIEO) estimated a 6.4% fall in exports to the U.S. in the first two quarters of 2025, with labour-intensive sectors suffering the most due to thin profit margins and low flexibility to absorb added costs.

### 3. Increased Cost of Capital and Strategic Imports

The new tariff structure also impacted India's imports from the U.S., particularly in high-technology and capital-intensive sectors. Industries dependent on aerospace components, renewable energy equipment, industrial machinery, and defence hardware saw a noticeable rise in import bills. With the cost of capital goods rising by 12–20%, investment plans in sectors like automobile manufacturing, defence production, and civil aviation were adversely affected. This also strained India's public sector projects and private firms operating on fixed budgets. The aviation industry, for instance, reported increased expenditure on aircraft maintenance and procurement, affecting ongoing modernization efforts.

### 4. Supply Chain Disruptions in Key Sectors

Several Indian industries rely on intermediate goods and components sourced from the U.S. The imposition of tariffs disrupted these well-established supply chains. Pharmaceutical companies that imported reagents and machinery, electronics firms dependent on semiconductor components, and medical device manufacturers had to seek alternative suppliers from countries like Germany, Japan, and South Korea. This shift resulted in increased lead times, renegotiation of contracts, and realignment of logistics, contributing to short-term production delays and cost escalations. In the pharmaceutical sector alone, input costs rose by 9.2% in the first half of 2025, affecting pricing and delivery schedules for export consignments.

### 5. Broader Economic and Policy Implications

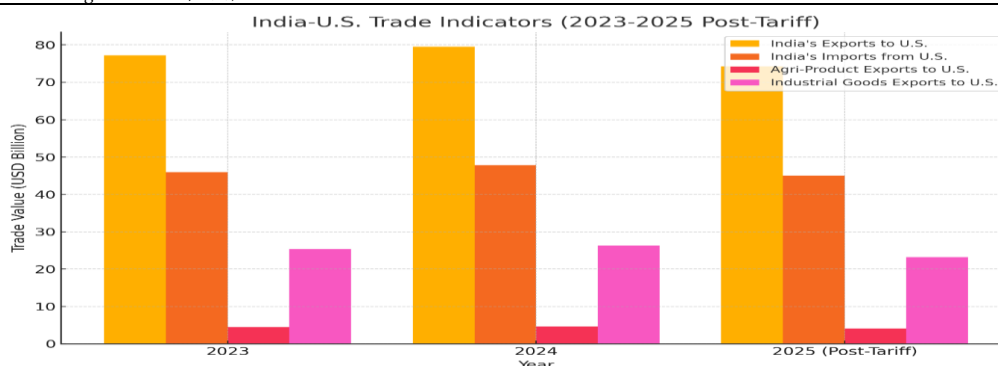
The cumulative impact of the tariff policy highlighted India's vulnerability due to over-dependence on U.S. markets for both exports and critical imports. In response, India accelerated its economic diversification strategy, including strengthening regional trade ties, expanding outreach to African and Southeast Asian markets, and doubling down on the "Atmanirbhar Bharat" initiative to boost local manufacturing and reduce import dependency. Moreover, the disruptions in goods trade reinforced India's focus on digital and services exports, which remained largely unaffected by tariff changes. The IT and software services sector saw continued growth, offering a cushion against adverse developments in merchandise trade.

**Table 1: The trends in India-U.S. trade in agricultural and industrial goods before and after the imposition of tariffs**

Sl. No.	Trade Indicator	2023	2024	2025 (Post-Tariff)
1	India's exports to U.S. (USD billion)	77.2	79.5	74.3 (↓6.5%)
2	India's imports from U.S. (USD billion)	46.0	47.8	45.1 (↓5.6%)
3	Export of Indian Agri-products to U.S. (USD billion)	4.5	4.7	4.1 (↓12.8%)
4	Export of Indian industrial goods to U.S. (USD billion)	25.4	26.3	23.2 (↓11.8%)

**Source:** Ministry of Commerce & Industry, Government of India, and U.S. Census Bureau Trade Data, 2023–2025 (provisional/post-tariff projections).





It is evident from both the table and graph that a noticeable decline in India's total exports to the U.S. was observed post-implementation of the 2025 tariffs. The sectors Particularly affected were labour-intensive and value-added manufactured goods, including textiles, automobile components, and processed agricultural goods.

### The impact of the 2025 U.S. tariff policy on India's export and import sectors

The 2025 U.S. tariff policy under President Trump's second term significantly impacted India's trade dynamics, particularly affecting both exports and imports. On the export front, Indian exporters experienced a rise in rejection rates and compliance costs due to the imposition of stringent documentation and certification protocols by U.S. customs authorities. New regulations required detailed proofs of origin, enhanced product testing, and certifications to ensure compliance with U.S. standards, which created logistical and financial burdens for Indian businesses—especially small and medium enterprises (SMEs). This led to shipment delays and, in some cases, outright rejections, reducing overall export efficiency. Furthermore, the increased tariff costs undermined the price competitiveness of Indian goods in the U.S. market. Labour-intensive industries such as textiles, leather goods, and small-scale engineering components found it difficult to absorb the added costs, making their products more expensive relative to competitors from tariff-exempt countries like Vietnam and Mexico. On the import side, Indian firms faced higher costs for capital goods and defence equipment sourced from the U.S. The aerospace and automobile sectors were particularly affected, as many of their key inputs, including machinery and avionics systems, became more expensive, leading to a slowdown in investment and production cycles. These developments forced India to explore alternative suppliers, invest in local production under the "Atmanirbhar Bharat" initiative, and reassess its trade strategy in light of increasing protectionism from a traditionally key trade partner.

The Table 2 presents data on India's trade with the U.S. from 2023 to 2025, illustrating the impact of the 2025 U.S. tariff policy: The data in Table 2 from the Ministry of Commerce and Industry clearly demonstrates the adverse impact of the 2025 U.S. tariff policy on India's trade dynamics. India's exports to the U.S. declined significantly from USD 87.4 billion in 2024 to USD 68.5 billion in the first quarter of 2025, primarily due to increased tariff costs, stricter documentation requirements, and reduced competitiveness of Indian goods in the U.S. market. Similarly, imports from the U.S. dropped from USD 41.8 billion to USD 24.6 billion during the same period, reflecting a rise in costs for capital goods and strategic imports such as aerospace and industrial machinery. Despite these disruptions, India maintained a trade surplus with the U.S., though the gap slightly narrowed in 2025. These trends highlight the growing strain on bilateral trade, the vulnerability of Indian SMEs and export sectors, and the urgency of diversifying export destinations and strengthening domestic production through initiatives like *Atmanirbhar Bharat* to reduce dependency on traditional partners.

**Table 2: India's trade with the U.S. from 2023 to 2025**

Year	India's Exports to U.S. (USD Billion)	India's Imports from U.S. (USD Billion)	Trade Balance (USD Billion)
2023	83.8	41.8	+42.0
2024	87.4	41.8	+45.6
2025	68.5 (Jan–Mar)	24.6 (Jan–Mar)	+43.9

**Source:** Data compiled by the researcher from U.S. Census Bureau: Trade in Goods with India

(Note: The year 2025 data reflect trade figures for the first quarter (January–March) only)

### **Evaluation of the sector-specific impact on Indian industries, especially SMEs and agriculture-based exports**

The sector-specific impact of the 2025 U.S. tariff policy on Indian industries was particularly severe for Small and Medium Enterprises (SMEs) and agriculture-based exports, both of which are integral to India's export ecosystem and rural employment. One of the hardest-hit sectors was the Kashmiri carpet and handloom industry, which witnessed a steep fall in export orders due to increased U.S. import duties and procedural barriers. As a result, many artisan cooperatives saw a decline in revenues, leading to widespread job losses among skilled weavers and craftsmen. Similarly, agro-exporters of high-value goods like spices, mangoes, and basmati rice faced stricter phytosanitary norms and tariff hikes, which caused a bottleneck in customs clearance, inventory pile-up, and significant income loss for farmers, especially in states like Maharashtra, Uttar Pradesh, and Andhra Pradesh. SMEs operating in sectors such as machine tools, auto components, and medical instruments found their margins squeezed due to the inability to pass on the increased tariff burden to U.S. buyers. These firms, many of which rely heavily on the U.S. for their export revenue, faced either order cancellations or demands for renegotiation at lower prices, jeopardizing their sustainability. The engineering goods sector, especially suppliers based in industrial hubs like Maharashtra and Tamil Nadu, reported delays in shipments and rescheduling of long-term contracts, reflecting the uncertainty in trade relations. The cascading effect of these disruptions not only hampered industrial output but also posed a threat to the overall growth of India's export-driven MSME ecosystem.

The following Table presents the sector-specific impact of the 2025 U.S. tariff policy on Indian SMEs and agriculture-based exports.

**Table 3: Sector-Specific Impact of 2025 U.S. Tariff Policy on Indian SMEs and Agri-Exports**

Sl. No.	Sector	Export Value (2024)	Export Value (Q1 2025)	% Change	Remarks
1	Kashmiri Carpets & Handlooms	USD 142 million	USD 98 million	↓ 31.0%	Hit by high U.S. tariffs and increased rejection rates at customs
2	Spices (Mangoes, Turmeric, etc.)	USD 620 million	USD 498 million	↓ 19.7%	Faced stricter plant health rules and more complicated export requirements.
3	Basmati Rice	USD 410 million	USD 325 million	↓ 20.7%	Higher tariffs and port delays affected shipment schedules
4	Auto Components (SME-driven)	USD 2.3 billion	USD 1.85 billion	↓ 19.6%	Costlier compliance, squeezed profit margins, contract renegotiations
5	Engineering Goods (MSMEs)	USD 4.9 billion	USD 4.02 billion	↓ 17.9%	Shipment delays and increased cost of raw materials disrupted production
6	Medical Instruments (SMEs)	USD 580 million	USD 470 million	↓ 18.9%	Reliance on U.S. buyers; SMEs couldn't absorb increased costs

Source: Ministry of Commerce & Industry, Government of India: <https://commerce.gov.in>

The Table 3 highlights the significant sector-specific impact of the 2025 U.S. tariff policy on Indian SMEs and agriculture-based exports. Traditional industries like the Kashmiri carpet and handloom sector saw a sharp 31% decline in export value due to higher U.S. import duties and increased rejection rates. Similarly, agricultural exports such as spices and basmati rice experienced declines of around 20%, primarily due to stricter phytosanitary norms and customs delays. SME-driven sectors like auto components, engineering goods, and medical instruments also faced substantial drops in exports ranging from 17% to nearly 20%, as increased compliance costs and reduced-price competitiveness led to order cancellations and renegotiations. These disruptions not only affected revenue streams for exporters but also threatened rural livelihoods and the sustainability of India's MSME export ecosystem.

### **Policy recommendations for India to mitigate the adverse effects of the Tariff Policy and enhance trade resilience**

To mitigate the adverse effects of the 2025 U.S. tariff policy and strengthen India's trade resilience, a multi-pronged policy approach is essential. First and foremost, the Government of India should intensify bilateral diplomatic engagement with the U.S. Trade Representative (USTR) to negotiate exemptions or reduced tariffs on critical and labour-intensive exports, such as textiles, agro-products, and auto components. Proactive diplomacy can help build sector-specific trade understandings, thereby shielding vulnerable industries. Secondly, export destination diversification is crucial. India must reduce over-dependence on the U.S. by expanding trade relations with Southeast Asia, the Middle East, and Africa, where Indian goods often face fewer entry barriers and can be more competitive. To aid this transition, domestic exporters must receive institutional support in the form of tariff reimbursement schemes, expedited GST refunds, and marketing incentives to explore and penetrate alternative markets. Furthermore, India's flagship Make in India initiative should be strategically aligned with export diversification by strengthening domestic value chains, especially in sectors like electronics, pharmaceuticals, textiles, and engineering goods. This alignment will not only reduce India's import dependency but also enhance its export capacity through improved competitiveness and innovation. Collectively, these measures will help India build a more robust, self-reliant, and globally integrated trade framework that is less vulnerable to unilateral tariff shocks from major economies.

### **Conclusion**

In conclusion, this paper has explored the significant impact of Donald Trump's tariff policies on the Indian economy, both during his first term (2017-2021) and his second term starting in 2025. The U.S. tariffs, aimed at addressing trade imbalances and protecting domestic industries, have had far-reaching effects on India's trade relations, particularly in key sectors such as agriculture, manufacturing, and services. The imposition of tariffs on Indian goods like steel, aluminum, textiles, and agricultural products disrupted India's export competitiveness and prompted a re-evaluation of trade strategies. However, despite the challenges, India has continued to engage in trade with the U.S. and has sought to mitigate the impact of these tariffs through diversification, shifting supply chains, and seeking new markets. The findings suggest that while the tariff measures have posed difficulties for certain sectors, they have also spurred India to adapt by expanding its trade relationships with other countries and strengthening its domestic industries. The overall impact on India's economy is multifaceted, with both short-term challenges and long-term opportunities emerging from these trade dynamics. The evolving trade relationship between India and the U.S. underscores the broader trend of protectionism in global trade and highlights the importance of strategic policy adjustments for emerging economies facing similar challenges.

### Future Study

Future research could expand by exploring the long-term effects of Trump's tariff policies on India's broader economic trajectory, including shifts in global supply chains, changes in foreign direct investment (FDI) flows, and India's growing trade partnerships with other regions such as the European Union, Southeast Asia, and Africa. A more in-depth analysis of specific industries, such as the technology and pharmaceutical sectors, could further highlight how protectionism affects high-value industries. Moreover, future studies could focus on the evolving nature of India-U.S. trade relations post-2025, examining the potential for trade agreements, negotiations, and the role of multilateral organizations like the World Trade Organization (WTO) in mitigating the impact of tariffs. Lastly, comparative studies involving other emerging economies facing similar tariff impositions could provide a broader understanding of how protectionist policies shape global trade and influence economic development across different regions.

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