



Minimizing the Impact of U.S. Tariffs on India's Economic Growth: Strategic Responses and Policy Recommendations

Nakshatra Gupta*

Department of Commerce, MSM College Meerut, U.P., India
E-mail: nakshatragupta17@gmail.com

Abstract

Due to imports of goods and particularly textiles, gems, seafood, and electronics, the United States presents tariff levels that are very high to Indian exports and this presents a great challenge to Indian trade balance and GDP. This paper will examine the economic effects of these tariffs, examine the bilateral trade pattern between India and the U.S., and provide an internal policy action to alleviate the effect. It also analyses strategic potential of the India UK Free Trade Agreement (FTA) as hedge against U.S trade headwinds. By quantitatively supported thought and sectoral knowledge, the paper draws a plan on how India can be resilient in exports and its economy.

Key Words: U.S. Tariff Policy, India-U.S. Trade Relations, Trade Protectionism, Bilateral Trade Balance, Export Competitiveness, Indian Economic Growth, Tariff Shock, Sectoral Impact Analysis, Production-Linked Incentives (PLI), Trade Diversification, India-UK Free Trade Agreement, Free Trade Agreements (FTA).

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*Corresponding Author

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1. INTRODUCTION

India and the United States have enjoyed a fruitful trade relationship in the past decade. However, new tariff increment since the leadership of President Donald Trump has adversely altered the current of trade between the nations and these changes have put India at a risk of losing key exports. The paper examines the extent of the impact and identifies specific internal mitigation plans to mitigate the economic impact. The United States and India have one of the greatest bilateral trade relations within the global economic system. In the recent decade the US has become the biggest trading partner of India due to the competitive edge India has in pharmaceuticals, textile, gems and jewellery, engineering products, seafood and information technology services. Such cooperation is one of the factors that have made India grow on an export-driven model and has been very crucial in maintaining the trade surplus and job creation in various industries in India. Nevertheless, this relationship has been facing more and more challenges because of protectionist trade policies, especially, the imposition of increased tariffs by the United States.

U.S. trade policy has changed since the administration of President Donald Trump with economic nationalism with an emphasis on tariff protection to decrease trade deficits and promote domestic manufacture. Although the main intention of these tariff increment was to correct trade imbalances of the U.S with other major economies, its spillover effects have affected other emerging economies such as India. The major export industries in India (textiles, gems and jewellery, seafood and electronics) have suffered disproportionately, limiting the competitiveness of prices in the U.S. market, and burdening the exporters, particularly to the small and medium entrepreneurs.

These tariffs have economic effects that are beyond trade statistics. The direct impact of export contraction on India is on its GDP, employment, and earning of foreign exchange. Since export to the United States occupies a significant portion of the GDP of India, long term tariff pressure is a structural threat to the long term growth path of India. Moreover, uncertainty created by tariffs deters investment, supply chain disruption and trade planning in the long-term of Indian companies relying on the U.S. market.

It is in this context that this paper will attempt to systematically evaluate the economic effect of U.S tariffs on the balance of trade and GDP in India, based on current trade statistics and sectoral study. It also analyzes the strategic responses of India as especially the interventions of internal policies and diversification of trade. One of the key subjects of the research is the India-UK Free Trade Agreement (FTA), which is analyzed as one of the possible hedges against the negative U.S. trade policies. In an effort to develop a holistic frameworks of how the negative implications of U.S. tariffs can be reduced and help India to enhance its long-term trade resilience and global competitiveness, this paper will combine quantitative estimations with policy analysis.

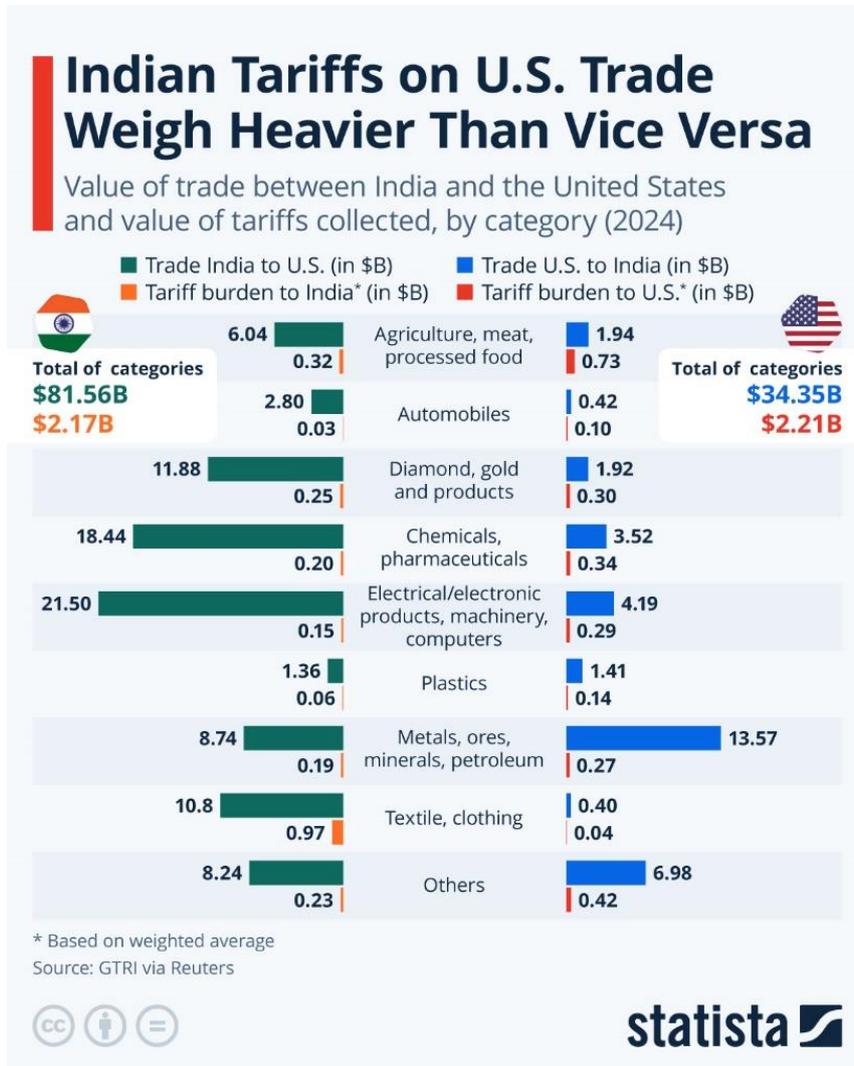


Figure 1: Indian Tariffs on US Trade Weigh Heavier Than Vice Versa

2. INDIA-U.S. TRADE OVERVIEW (2020-2024)

India has consistently maintained a trade surplus with the U.S., driven by strong exports in pharmaceuticals, textiles, engineering goods, and IT services.

Year	India's Exports to U.S.	India's Imports from U.S.	Total Trade	Trade Surplus (India)
2020	\$51.25 billion	\$27.08 billion	\$78.33 billion	\$24.17 billion
2021	\$73.31 billion	\$39.82 billion	\$113.13 billion	\$33.49 billion

2022	\$85.52 billion	\$46.82 billion	\$132.34 billion	\$38.70 billion
2023	\$87.20 billion	\$42.20 billion	\$129.40 billion	\$45.00 billion
2024	\$87.40 billion	\$41.80 billion	\$129.20 billion	\$45.60 billion

U.S. Exports to India (in billion USD), U.S. Imports from India (in billion USD) and Trade Balance (in billion USD)

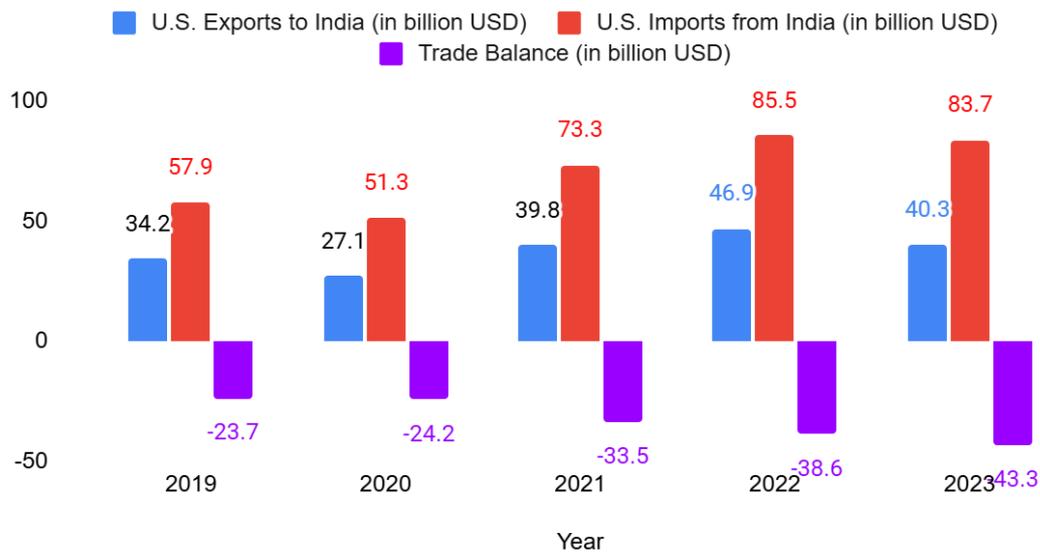


Figure 2: US Import/Exports and Trade Balance

3. ARMS IMPORTS FROM THE U.S. (2020-2024)

India's defense relationship with the U.S. has deepened, with significant arms imports contributing to strategic capabilities.

Year	Estimated Arms Imports from U.S.	Major Deals & Deliveries
2020	~\$1.8 billion	Apache & Chinook helicopters, C-130J aircraft
2021	~\$2.5 billion	GE aircraft engines, Hellfire missiles
2022	~\$3.2 billion	P-8I maritime aircraft, M777 howitzers
2023	~\$4.1 billion	MQ-9B drones, Excalibur artillery shells
2024	~\$5.0 billion	Seahawk helicopters, torpedoes, sonobuoys

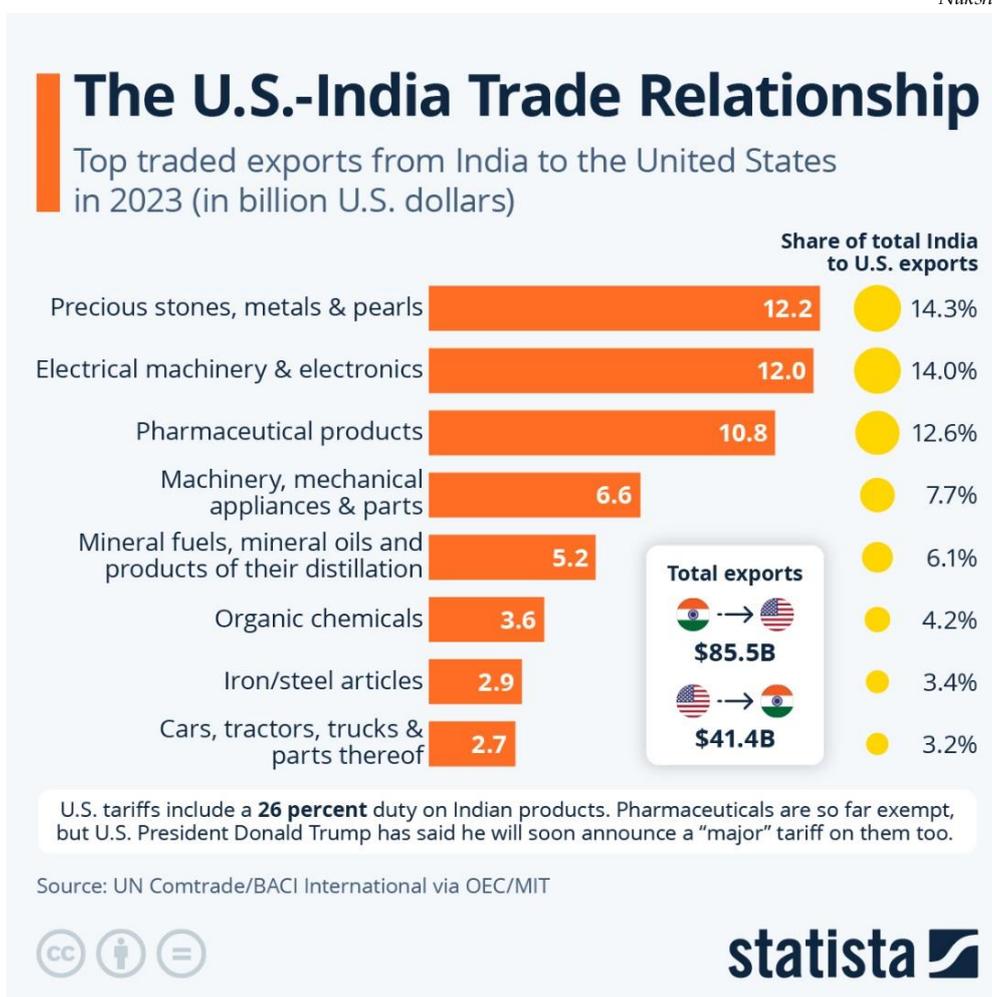


Figure 3: US Tariff Could Spell Trouble for India's Gem Industry

4. COMBINED TRADE BALANCE ANALYSIS

Category	India's Exports to U.S.	India's Imports from U.S.	Net Balance
Goods & Services	~\$384 billion	~\$197 billion	+\$187 billion
Arms Imports	\$0	~\$16.6 billion	-\$16.6 billion
Combined Total	~\$384 billion	~\$213.6 billion	+Rs. 170.4 billion surplus

Despite arms imports, India maintains a strong trade surplus with the U.S.

5. GDP IMPACT OF U.S. TARIFFS

India's exports to the U.S. contribute ~4.4% to its GDP. A 50% tariff could reduce this significantly.

Metric	Value
India's GDP (2024-25 est.)	~\$3.7 trillion
U.S.-bound exports	~\$86.5 billion
Potential loss (50% tariff)	~\$34-43 billion
GDP impact	~1.8-2.2%

6. STRATEGIC ROLE OF THE INDIA-UK FTA

The India-UK FTA signed in July 2025 offers a powerful buffer against U.S. trade disruptions.

Sector	Impact of UK FTA	Why It Matters Now
Seafood	Export duty scrapped	U.S. tariffs hit shrimp hardest
Textiles & Apparel	1,143 product lines duty-free	UK offers price advantage
Gems & Jewellery	Full duty elimination	Major export to U.S. – UK offers relief
Engineering Goods	Tariffs cut up to 18%	High-growth sector
Pharmaceuticals	Generic drugs duty-free	UK offers fresh demand

7. INTERNAL POLICY RECOMMENDATIONS

India should also rely on domestic transformation and exporter aid to limit the effects of the U.S. tariffs.

7.1. Production-Linked Incentives (PLI)

- Increase PLI in high export intensive industries
- Give focused subsidies to MSMEs

7.2. Diversification of the market

- Quickening FTAs with EU, Asian, Africa
- Encourage the exports through IBEF and trade missions

7.3. Export Credit & Logistics

- Increase coverage of ECGC
- Improved infrastructure by digitizing customs and using ports

7.4. Digital Trade Platforms

- Scaling ONDC to cross border e-commerce
- Outsource digital compliance and marketing education to the exporters

7.5. Diaspora Engagement

- Demand generation through diasporas networks
- Lobby storytelling and cultural branding



8. ESTIMATED IMPACT REDUCTION

Without Action	With Strategic Policies
GDP hit: ~2.2%	GDP hit: ~0.3-0.5%
Export loss: ~\$43B	Export loss: ~\$10-15B
Job loss: ~500K	Job loss: <150K

9. CONCLUSION

As has been shown in the analysis paper, U.S. tariffs have a real threat with regard to the performance of its exports in India, but overall, their effects on the Indian economy can be alleviated to a big extent by applying strategic policy intervention and diversifying trade. India has a trade surplus with the United States and this further shows the competitiveness and strength of the export sectors in India. Nevertheless, dependence on one powerful market has structural weaknesses especially when the world is in the protectionism phase.

The results show that some of the most vulnerable sectors to tariff shock include textiles, gems and jewellery, seafood and engineering goods and there are chances that the effects of the tariff shocks can cascade into the employment sector and sustainability of MSMEs. An extreme tariff scenario might decrease the growth of the Indian GDP by as much as 2.2 percent should nothing be done in this regard. However, the effect can be mitigated significantly by applying specific domestic policies, including increased Production-Linked Incentives (PLI), better export credit facilities, and modernization of logistics.

In this respect, India-UK Free Trade Agreement presents itself as an extremely important strategic tool. The FTA offers Indian exporters an alternative avenue of growth by allowing them duty-free or low tariff access to high-impact sectors, and it will minimize their overdependence on the U.S. market. In the medium-term, the UK market can be successfully used to cover the losses in exports as well as stabilize the output of the sectors and assist with the continuation of employment. Portfolio-wise, faster trade deals with the European Union, Asia, and Africa would make India even more trade resilient.

To sum up, U.S. tariffs cannot be treated only as the outside economic danger, but as the inducement of structural adjustment and strategic re-alignment. India can make use of the challenges associated with tariffs into sustainable growth opportunities by domesticizing the manufacturing processes, enhancing the trade infrastructure, using digital platforms, and diversifying the trade partnerships with other nations. By using a concerted policy-reform effort, innovation, and global involvement, India can not only bring down the negative impact of U.S. tariffs but also become a less competitive and diversified participant in the international trading system.

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