

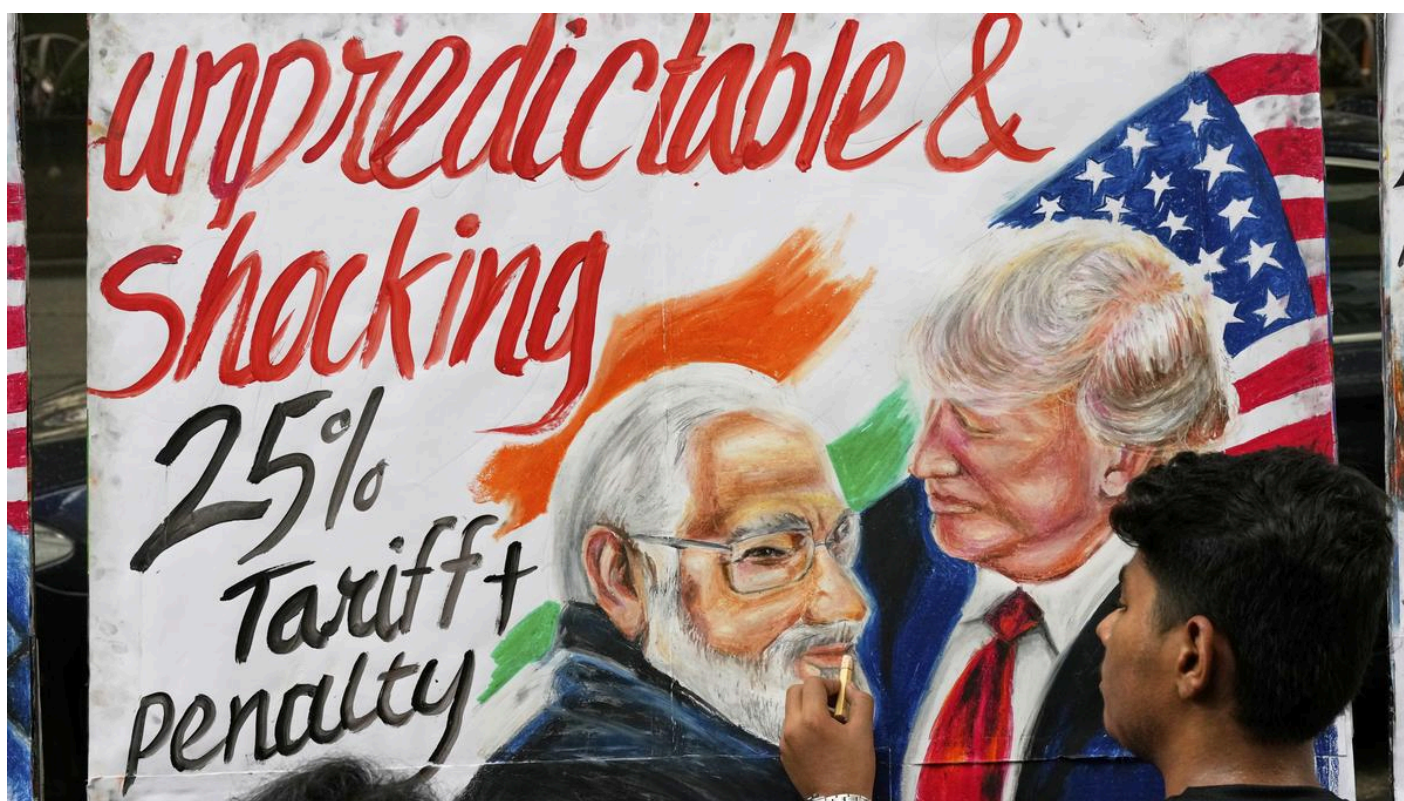
How will Trump's tariffs impact India? | Explained

What are the sectors that will need to rework their export strategies? Why are India's dealings with Russia under scrutiny? Will the 25% tariff and penalty affect GDP? Why hasn't a trade deal worked out between the two countries? What are the main areas of contention?

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A student of Gurukul school of Art completes artwork of U.S. President Donald Trump and Prime Minister of India Narendra Modi, in Mumbai, on August 1, 2025 | Photo Credit: AP

The story so far: On July 30, U.S. President Donald Trump announced 25% tariffs on imports from India "plus a penalty". While this puts to rest months of speculation over what the tariffs would be on Indian imports into the U.S., it opens up fresh uncertainties with respect to a potential bilateral trade agreement between India and the U.S.

What did Mr. Trump announce?

Taking to social media, Mr. Trump cited India's tariff and non-tariff measures on trade, and its dealing with Russia on energy and military equipment, as the main reasons behind imposing the 25% tariffs and the penalty. There is no clarity yet on what the penalty will look like, but Mr. Trump has in the past threatened a 10% additional tariff on BRICS countries. If this comes to pass, then

effective tariffs on Indian imports would be 35%. There is also a legislation in the U.S. in the process of being passed that could see an additional 500% tariff on India, China, and Brazil for their dealings with Russia.

What does it mean for India?

Tariffs are paid by importers. Therefore, tariffs on Indian imports would be paid by those in the U.S. that are importing Indian goods. That is, Indian goods will become more expensive for them. Therein lies the true problem for India.

On a macro level, the tariffs and the impact they will have on Indian exports are expected to only lower India's GDP by 0.2%, according to research by the Bank of Baroda. So, if India's growth forecast had been 6.6%, then these tariffs — if they are imposed — could lower growth to 6.4%. However, the issue arises in individual sectors. According to the Bank of Baroda, sectors such as garments, precious stones, auto parts, leather products, and electronics (although their inclusion is uncertain) could face the pinch and would have to rework their strategies. "The issue really is that some of the competing nations like Vietnam (20%), Korea (15%) and Indonesia (19%) have lower tariffs compared with India," the Bank of Baroda added in its research note.

How did things come to such a pass?

While most trade deals are negotiated over years, Prime Minister Narendra Modi and Mr. Trump in February 2025 announced that they would conclude the first tranche of a trade deal by fall. To put this in perspective, the recently-signed Comprehensive Economic and Trade Agreement between India and the U.K. took about three years to negotiate.

What made the announcement by Mr. Modi and Mr. Trump notable was that it came before the latter's big moves on reciprocal tariffs, which is what pushed other countries to start negotiating with the U.S. The announcement was thus a strong and positive commitment towards strengthening ties between the two countries. But then, on April 2, Mr. Trump announced his Liberation Day reciprocal tariffs. These included a 10% baseline tariff for all countries, and additional tariffs on a country-by-country case. For India, this total was 26%. However, just a week later, Mr. Trump announced a 90-day pause on these tariffs so that bilateral deals could be struck so as to reduce the U.S.'s trade deficit with most of its trading partners. The 90-day pause was to end in July, but Mr. Trump extended it to August 1.

What are the points of friction?

It's hard to pinpoint any single recent development that has soured relations, but there have been several points of friction between the two countries in the past few months. The matter of India's tariffs and non-tariff barriers has been something Mr. Trump has been highlighting since his first term as President. It was no surprise that he would take up the issue in his second term.

Soured relations: The Hindu editorial on Trump's 25% tariff, 'penalty'

Mr. Trump has brought up India's engagement with Russia, too, saying countries like India are partly financing Russia's war with Ukraine. India, however, has reiterated that it will secure its national and energy security, and if that means buying cheap Russian oil, then that is what it would do. Russia currently accounts for about 35-40% of India's oil imports, making it a significant partner. In addition, India has remained adamant about keeping core parts of its agriculture and dairy sectors out of trade deals, including with the U.S. This has upset negotiators on the U.S. side, but it is a 'red line' India will not cross. Opening up these sectors would expose India's relatively low-productivity farmers to global competition, which will likely have devastating impacts on their livelihoods.

Then, there is the fact that Mr. Trump has repeatedly stated that it was him, and his trade talks, that encouraged India and Pakistan to agree to a ceasefire following the launch of Operation Sindoor by India. The fact that the Indian government has refuted it has only further angered Mr. Trump. Mr. Trump's claims have irked the Indian establishment as well, since it has provided the Opposition a means to attack the government.

India has informed the World Trade Organization that it reserves the right to impose additional tariffs on imports from the U.S. to retaliate against its higher tariffs on items like steel, aluminium, and automobiles.

Taking these things together, Mr. Trump's tariff announcement comes as a confirmation that at least one, if not all of these factors, worked toward souring relations.

Will India continue paying these tariffs?

Although there has been a lot of talk about a 'mini-deal' between India and the U.S. to walk back the reciprocal tariffs, Indian officials have been cagey about the date for such a deal. The tariff announcement by Mr. Trump confirms that such a deal is not coming.

However, the two sides have been remarkably consistent about their commitment of having some sort of trade deal finalised by the fall 2025 deadline. So far, negotiators from the two sides have met in New Delhi and Washington five times, including the first meeting in March where the Terms of Reference for the negotiations were finalised. The team from the U.S. will visit India in late August to take forward the talks. Things have, however, become trickier for Indian negotiators because Mr. Trump has now directly linked India's dealings with Russia to India's trade relationship with the U.S.

The tariffs will come into effect soon. According to an Executive Order dated July 31, Mr. Trump said that his duties on India and other countries would come into effect "7 days after the date of this order".

What about deals with other countries?

Over the last month, Mr. Trump has concluded deals with the U.K., Indonesia, the Philippines, Japan, the EU, and South Korea. The deal with the U.K. does not specify a general tariff level, but it will see British car exports to the U.S. attract a 10% tariff, down from the earlier 27.5% and a removal of tariffs on aerospace exports to the U.S. Japan negotiated lower tariffs of 15% for its exports to the U.S., the same as the EU.

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