



Tariffs Imposed by the United States on India and Their Economic Impact on the Indian Economy

(An Analysis of Exports, Employment, Trade Relations and Policy Responses)

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Abstract

Tariffs imposed by the United States on Indian goods have become an important issue in India's international trade relations, with significant implications for export competitiveness, industrial production, employment and bilateral economic cooperation. The tariff measures introduced in 2025, followed by subsequent changes in 2026, created uncertainty for Indian exporters, particularly in labour-intensive sectors such as textiles, apparel, leather, footwear, gems and jewellery, and selected engineering products. The situation has evolved through several policy changes. In April 2025, the United States announced reciprocal tariffs on imports from trading partners, including India. In August 2025, an additional tariff linked to India's purchases of Russian oil raised the announced tariff burden on many Indian goods to 50%. A subsequent framework announced in February 2026 proposed an 18% reciprocal tariff rate for specified Indian-origin goods. In July 2026, a separate U.S. measure introduced an additional 10% duty on a defined range of imports from India, with exemptions covering several important product categories. These measures have different legal bases and product coverage and should not be treated as a single, continuously applicable tariff rate. This paper examines the evolution of U.S. tariff policy towards India, the economic channels through which tariffs affect Indian businesses and consumers, the sectors most exposed to trade barriers, and the potential consequences for economic growth, employment, foreign exchange earnings and investment. It also evaluates India's policy options, including export-market diversification, improvements in productivity, trade negotiations and support for small and medium-sized enterprises. The paper concludes that the overall effect of U.S. tariffs depends on the applicable duty for each product, the duration of the measures, exemptions, competing countries' tariff treatment and exporters' ability to adapt. Reliable assessment therefore requires product-level tariff data and comparison of export performance before and after each policy change.

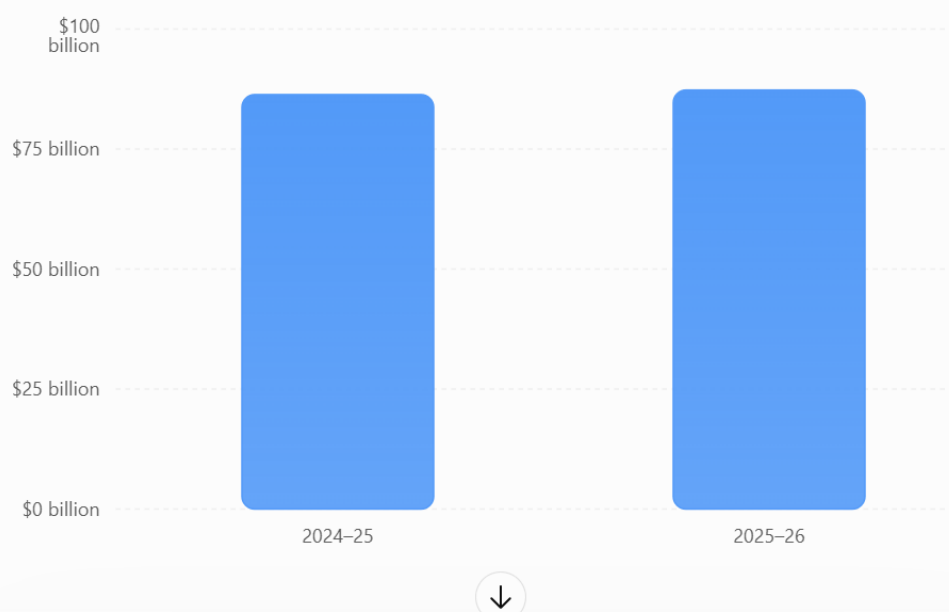
Keywords: U.S. tariffs, India, international trade, export competitiveness, trade protectionism, employment, Indian economy, bilateral trade agreement, export diversification.

1. Introduction: International trade is an important driver of economic growth, industrial development, technological progress and employment. India and the United States maintain extensive economic relations involving merchandise trade, services, investment, information technology, pharmaceuticals, engineering products and agricultural commodities. The United States is an important destination for Indian merchandise exports. Consequently, changes in U.S. import duties can influence the prices of Indian goods in the American market, the profit margins of Indian exporters and the purchasing decisions of American importers. A tariff is a tax imposed on imported goods. When a government increases tariffs on foreign

products, the landed cost of those products generally rises, unless exporters, importers or other participants absorb some or all of the additional cost. This can reduce the price competitiveness of foreign suppliers and encourage buyers to consider domestic products or imports from countries facing lower duties. The tariff measures announced by the U.S. government in 2025 and modified during 2026 brought these issues into sharper focus for India. The measures were associated with U.S. objectives concerning reciprocal market access, trade imbalances, national security and, in one instance, imports produced using forced labour. India, meanwhile, has sought to protect its export interests while continuing bilateral trade negotiations. The economic consequences are not limited to the value of exports. They can extend to employment, wages, capacity utilisation, investment decisions, small enterprises, regional industrial clusters and India's broader balance of payments. It is therefore important to analyse the tariffs not merely as a diplomatic issue, but as an economic policy development with direct implications for India's productive sectors and long-term development strategy.

Indian merchandise exports to the U.S.

Reported export values for FY 2024–25 and FY 2025–26.



Source: Government of India trade brief and reporting of ICRIER's FY 2025–26 analysis.

2. Statement of the Research Problem: The central research problem is to determine how changes in U.S. import tariffs affect the competitiveness of Indian products and the wider Indian economy. Three questions are particularly important:

1. How do U.S. tariffs influence the price and demand for Indian exports?
2. Which Indian industries, workers and businesses are most vulnerable to these measures?
3. What policy responses can reduce India's exposure to tariff-related disruptions while preserving access to the U.S. market?

The difficulty is that tariff rates have changed over time, and exemptions differ by product. Consequently, an estimate based on a single headline tariff rate may misrepresent the actual burden faced by Indian exporters.

3. Objectives of the Study: The major objectives of this research are:

- I. To examine the evolution of tariffs imposed by the U.S. government on Indian goods during 2025–2026.
- II. To analyse the impact of these tariffs on India's merchandise exports and international competitiveness.
- III. To identify the industries most exposed to additional U.S. import duties. To evaluate the effects on employment, MSMEs, industrial investment, foreign exchange earnings and economic growth.
- IV. To examine the implications for India–U.S. bilateral trade relations.

V.To assess India's policy response and identify measures for strengthening long-term export resilience.

4. Research Questions:

- a) Have U.S. tariffs reduced the growth of India's exports to the American market?
- b) Which industries have experienced the greatest exposure to tariff-related costs?
- c) Why have some Indian exports continued to grow despite higher tariffs?
- d) Can alternative export markets compensate for weaker U.S. demand?
- e) What policies can improve India's competitiveness and reduce dependence on a single export destination?

5. Research Methodology: This paper uses a descriptive and analytical research design, based on secondary data and published policy documents.

Sources of data: U.S. government executive orders and trade-policy announcements. India's Ministry of Commerce and Industry and Press Information Bureau. Indian Council for Research on International Economic Relations (ICRIER). Published reports from economic research institutions and financial publications. Merchandise trade statistics for financial years 2024–25 and 2025–26.

Methods of analysis: Chronological analysis of tariff measures. Year-on-year comparison of export values. Sector-wise assessment of tariff exposure. Economic analysis of prices, employment, investment and trade diversion. Qualitative evaluation of policy alternatives.

The paper distinguishes between officially reported figures, analytical interpretations and possible future effects. The available figures are not sufficient to establish that every change in export performance was caused exclusively by tariffs.

6.1 Why did the United States impose tariffs?

The U.S. government presented several reasons for its trade-policy measures:

- I.Reciprocity: reducing what it regarded as differences between U.S. and trading-partner tariff and market-access conditions.
- II.Trade imbalances: responding to persistent U.S. merchandise trade deficits.
- III. Energy-related policy: using additional tariff measures in connection with India's purchases of Russian oil in 2025.
- IV.Forced-labour concerns: introducing a separate trade measure addressing the importation of goods produced using forced labour in 2026.

These are the stated policy grounds, rather than proof that each tariff achieves its intended economic objective. The effects depend on implementation, the responses of trading partners and the behaviour of businesses and consumers.

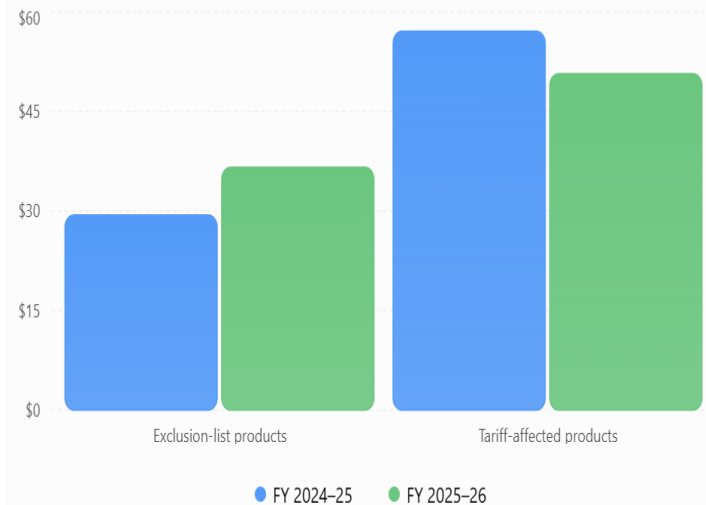
6. Magnitude of India's Trade Exposure: India's exposure is significant because the United States is a major market for Indian merchandise exports. At the same time, the effect on the wider economy depends on how much trade is actually subject to additional duties and how businesses adjust. The following figures provide an important baseline.

- FY 2024–25_ \$86.35 bn Indian exports to the U.S. cited in India's February 2026 government brief. Press Information Bureau
- FY 2025–26 \$87.3 bn reported merchandise exports to the U.S., up 0.9% year on year. Business Today
- India's total merchandise exports \$441.78 bn FY 2025–26, compared with \$437.70 billion in FY 2024–25. Press Information Bureau
- Total services exports \$418.31 bn FY 2025–26 estimate, compared with \$387.55 billion in FY 2024–25. Press Information Bureau

These figures demonstrate that India's merchandise exports to the U.S. remained broadly stable in value during FY 2025–26 despite the tariff episode. They do not mean that tariffs had no negative effect: exports might have grown faster without the duties, and different industries experienced different outcomes. Electronics growth and product exemptions also complicate comparisons.

Exports by tariff treatment

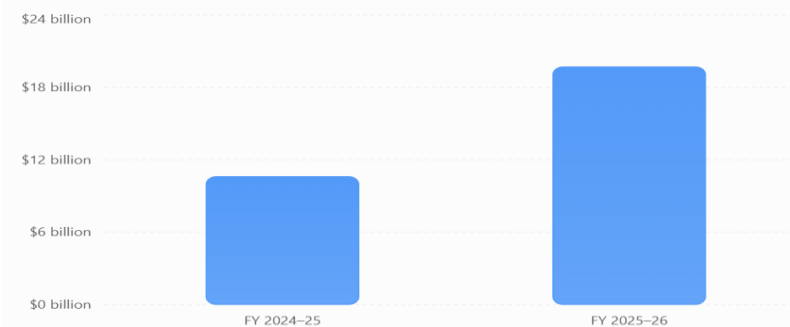
Reported values for products on the exclusion list versus products bearing tariff costs.

Source: ICRIER policy brief, *One Year of U.S. Tariffs: Shifts in India's Export Patterns*.

7. The comparison suggests that aggregate export values alone are not enough to measure the economic impact. A more robust evaluation should examine monthly shipments, tariff-exposed products, exempt products and exports to comparable alternative markets.

Smartphone exports to the U.S.

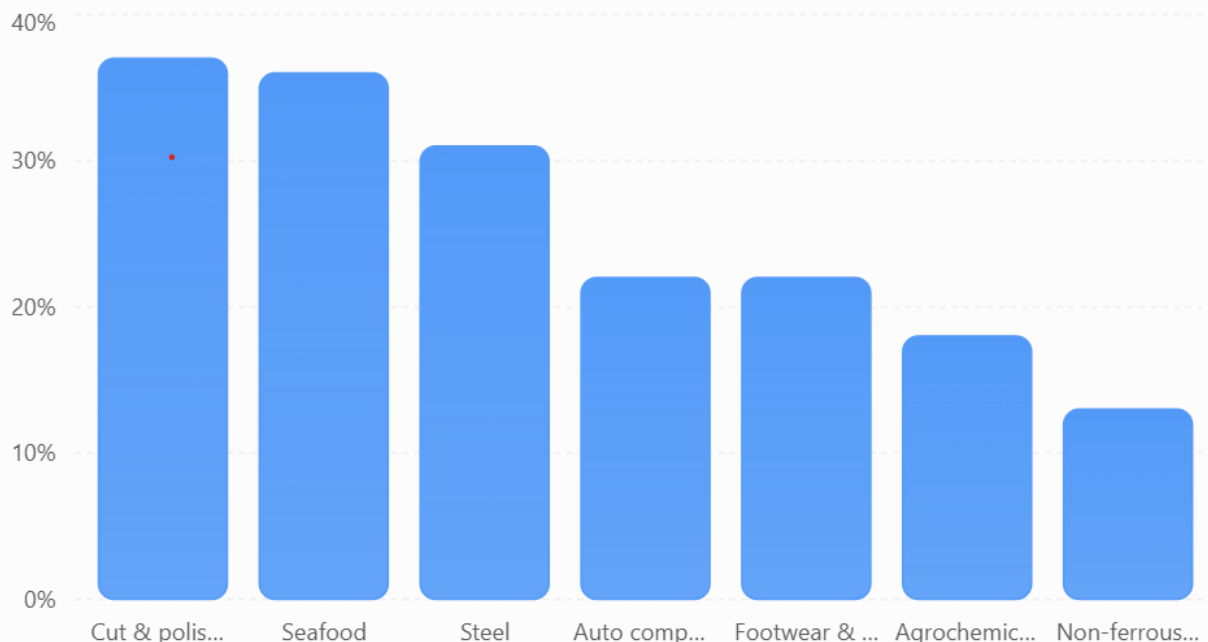
Reported Indian smartphone export values.

Source: ICRIER analysis, as reported by Business Today and Fortune India. [BusinessToday +1](#)

The evolution of U.S. tariff policy towards India between April 2025 and July 2026 reflects significant changes in bilateral trade relations and the conditions governing Indian exports to the American market. On 2 April 2025, the United States announced a reciprocal tariff framework that initially specified an additional tariff rate of 26% on Indian goods, creating uncertainty regarding the cost and competitiveness of Indian exports. In August 2025, the U.S. government announced an additional 25% tariff in connection with India's purchases of Russian oil, raising the announced tariff burden to 50% on many affected Indian products and increasing pressure on price-sensitive and labour-intensive industries. Subsequently, on 6 February 2026, the U.S.–India joint statement announced a framework for an interim trade agreement that included an 18% reciprocal tariff rate for specified Indian-origin goods, offering potential relief to covered exporters subject to the applicable conditions. On 20 February 2026, the U.S.

U.S. share in India's exports by selected sector

Sector exposure percentages reported by ICRA; figures are not tariff rates.



Source: ICRA, *Impact of US Tariffs on India* | 

Supreme Court issued a ruling invalidating certain broad tariffs imposed under emergency powers, prompting changes to the legal framework governing parts of the earlier tariff regime. Later, on 23–25 July 2026, the United States announced measures under Section 301 relating to forced-labour import restrictions, including an additional 10% duty on specified covered Indian goods, alongside exemptions for certain products. These developments demonstrate that U.S. tariff policy towards India has undergone several changes in its rates, legal basis and product coverage, with implications for export competitiveness, industrial production, employment and bilateral economic relations. However, the announced rates are not directly interchangeable or universally applicable to all Indian exports; the actual customs duty depends on the product classification, applicable exemptions, effective dates and tariff rules in force when the goods enter the United States.

8. Major Economic Impacts of U.S. Tariffs on India

8.1 Impact on export competitiveness

The most direct impact of an import tariff is an increase in the cost of entering the importing market. When a U.S. importer faces an additional duty on Indian goods, the importer may respond in several ways:

- Pass the additional cost on to American consumers through higher prices.
- Negotiate lower prices with Indian suppliers.
- Reduce order quantities.
- Shift purchases to competing countries.
- Absorb part of the additional cost through lower profit margins.

The result depends on the price sensitivity of demand and the availability of alternative suppliers. Indian producers competing primarily on price may face greater pressure than suppliers offering specialised, differentiated or difficult-to-substitute products.

For example, suppose an Indian exporter sells a product for \$100 before duty and the product is subject to an additional 10% tariff. Ignoring freight, insurance and other customs charges, the duty would be \$10. The

price before other charges would become \$110 if the importer passed the entire tariff on to the buyer. This is an illustrative calculation, not an estimate of the average tariff actually paid on Indian exports.

8.2 Impact on textiles and apparel

The textile and apparel industry is particularly important because it employs large numbers of workers and includes many small and medium-sized enterprises.

Tariff-related pressure can affect:

- Readymade garments and fashion products.
- Cotton and man-made-fibre textiles.
- Home furnishings, bed linen and blankets.
- Carpets and selected handicraft products.
- Textile-processing and garment-manufacturing units.

Higher import duties can reduce the price advantage of Indian suppliers relative to exporters in other countries. This may result in lower order volumes, reduced overtime, delayed investment and pressure on working capital. However, the effects vary by product, customer relationships, quality and competitors' tariff treatment. India's Ministry of Textiles reported that Indian textiles and apparel exports, including handicrafts, totalled approximately \$20.40 billion during April–October 2025, down 1.8% from approximately \$20.73 billion in the corresponding period of 2024. This is evidence of a modest decline during that period, but it does not isolate the effect of U.S. tariffs from other influences. Press Information Bureau

8.3 Impact on gems and jewellery

India has an important position in the processing and export of diamonds, gemstones and jewellery. Tariff changes can affect both the price competitiveness of finished products and the financial position of exporters. Potential effects include:

- Reduced orders from U.S. jewellery retailers.
- Pressure on exporters' profit margins.
- Increased inventory and working-capital requirements.
- Lower demand for services provided by small cutting, polishing and jewellery units.
- Greater uncertainty for businesses investing in export capacity.

The impact depends heavily on the tariff classification and exemptions applicable to individual products. The February 2026 U.S.–India framework identified gems and diamonds among the product categories for which reciprocal tariff removal was contemplated, subject to the relevant conditions.

8.4 Impact on leather and footwear

Leather goods and footwear are labour-intensive manufacturing activities. Additional tariffs may increase the cost of Indian shoes, leather accessories and related products relative to competing imports. If American buyers switch suppliers, Indian businesses may experience lower capacity utilisation. Smaller manufacturers can be especially vulnerable because they may have limited bargaining power, fewer export destinations and less capacity to absorb unexpected costs. Conversely, firms that improve product design, delivery reliability, quality certification and production efficiency may be better positioned to maintain customers despite higher duties.

8.5 Impact on pharmaceuticals and electronics

The impact on pharmaceuticals and electronics illustrates why a single headline tariff rate cannot describe the entire Indian export sector. Pharmaceuticals: Certain generic pharmaceutical products have received different treatment from tariff-exposed categories. Exemptions can protect market access, although pharmaceutical exporters remain subject to applicable product-specific regulations and other trade measures. Electronics and smartphones: Electronics exports helped support India's aggregate export performance during FY 2025–26. An ICRIER study, as reported by Business Today, found that smartphone

exports to the U.S. increased from \$10.6 billion in FY 2024–25 to \$19.7 billion in FY 2025–26. This growth demonstrates that product composition and exemptions can substantially influence aggregate trade results. The growth of electronics does not establish that tariffs were beneficial overall. It indicates that some products and supply chains responded differently from more heavily exposed sectors.

8.6 Impact on agriculture and food processing

Agricultural exports may be affected by tariffs on processed foods, spices, tea, coffee, fruits, nuts and other products. The consequences can extend from exporters to farmers, processors, packers and transport operators. Possible outcomes include lower export prices received by producers, diversion of shipments to alternative destinations, increased domestic supply and greater pressure on agricultural marketing arrangements. At the same time, agricultural trade is influenced by sanitary and phytosanitary rules, quality standards, seasonal supply and domestic support policies, not tariffs alone. Any assessment must account for these non-tariff factors.

8.7 Impact on MSMEs and employment

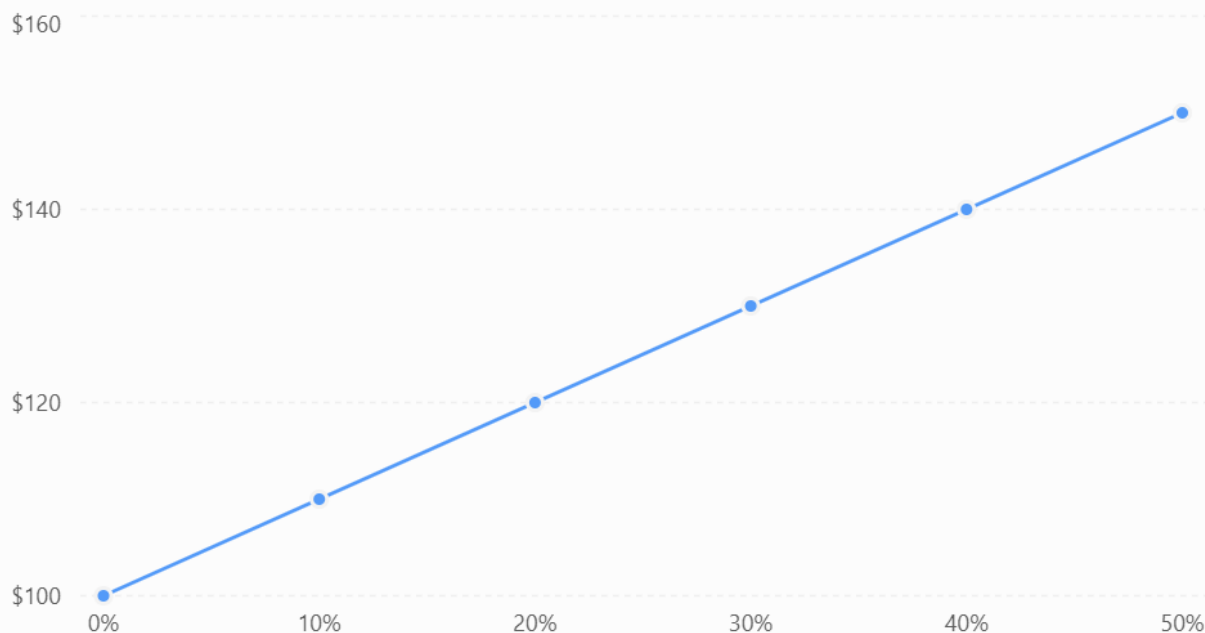
Micro, small and medium-sized enterprises are a major concern because many participate in export supply chains without having the financial resources of large corporations.

When orders decline or payment cycles lengthen, smaller businesses may face:

- Working-capital shortages.
- Higher borrowing costs relative to available cash flow.
- Delayed wage payments or reduced working hours.
- Lower production and capacity utilisation.
- Postponement of machinery purchases and expansion.
- Greater risk of losing established overseas customers.

Illustrative tariff and import price relationship

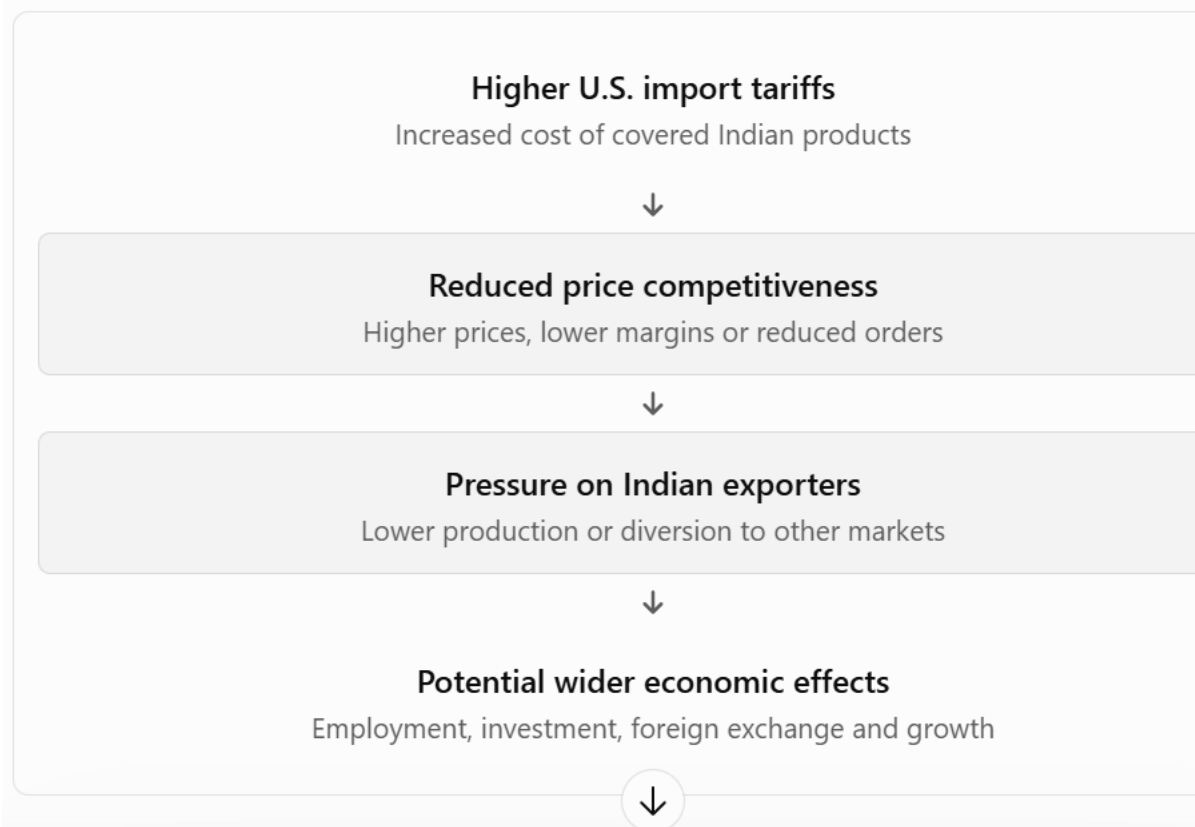
Hypothetical \$100 product, excluding freight, insurance and other charges.



These are plausible economic transmission mechanisms, not verified estimates of the number of jobs lost because of U.S. tariffs. India's Ministry of Commerce stated in its December 2025 parliamentary response that it continued monitoring exports and promoting them; the response did not provide a definitive tariff-attributable employment-loss estimate.

A sound research paper should therefore distinguish between employment risks identified by economic analysis and actual job losses established through enterprise-level or labour-market data. The imposition of tariffs by the United States on Indian goods may affect India's macroeconomic indicators through several channels. GDP growth may slow if reduced export demand leads to lower industrial production and domestic value addition, although strong domestic consumption and alternative export markets may offset some of the adverse effects. Employment may be affected when export-oriented industries reduce production, working hours or recruitment, with the extent of the impact varying across sectors, regions and enterprise sizes. Foreign exchange earnings may decline if Indian exporters receive fewer orders or lower payments from the U.S. market; however, growth in exports to other countries and in other sectors may compensate for these losses. The rupee exchange rate may come under pressure if weaker export prospects reduce foreign currency inflows, although capital movements, crude oil prices and monetary conditions also influence its value. Inflation may be affected indirectly through exchange-rate depreciation, changes in domestic supply and production costs, while exporters absorbing part of the tariff burden through lower profit margins may limit some price effects. Investment may weaken if uncertainty regarding U.S. trade policy discourages businesses from expanding production or purchasing machinery, although some firms may invest in India to strengthen domestic manufacturing and diversify their supply chains. Finally, the trade balance may deteriorate if declining exports widen the merchandise trade deficit; nevertheless, the overall outcome will depend on import demand, export performance in other markets and the ability of Indian industries to adapt to changing international trade conditions.

Figure 6. Transmission of U.S. tariffs to the Indian economy



Source: Author's conceptual framework, based on standard international trade theory. Outcomes are conditional,

9.1 Gross domestic product

Exports contribute to GDP through domestic value added. If foreign demand falls, firms may reduce production, employment and investment. These effects can spread to suppliers, transport companies, logistics providers and other supporting businesses. Nevertheless, the overall GDP effect cannot be

calculated simply by multiplying a tariff rate by India's total exports to the U.S. Tariffs are applied to covered goods, while the resulting economic loss depends on changes in quantities, prices, domestic value added and the availability of alternative demand.

9.2 Foreign exchange and the rupee

Lower export receipts can reduce one source of foreign exchange inflows. If businesses receive fewer export orders, the effect may also extend to their borrowing requirements and investment plans. However, exchange rates are determined by many factors, including capital flows, monetary policy, oil-import costs and expectations about economic growth. It would therefore be incorrect to attribute every movement in the rupee to U.S. tariffs.

9.3 Inflation and domestic prices

Tariffs primarily raise the cost of covered goods entering the United States. They do not automatically increase Indian consumer prices. In India, however, exporters unable to sell as much abroad may redirect goods to the domestic market, potentially increasing supply and putting downward pressure on certain prices. Conversely, weaker investment, higher financing costs or exchange-rate movements can create other inflationary pressures. The net effect depends on the product and prevailing market conditions.

10. India's Export Diversification and Trade Adjustment

An important response to tariff uncertainty is to reduce excessive dependence on any one export destination. India can pursue this objective by expanding sales in Europe, the United Kingdom, the Middle East, Africa, East Asia and other markets where demand and market-access conditions support Indian products. The Ministry of Textiles reported that Indian textile and apparel exports grew in more than 100 countries during April–October 2025 compared with the same period a year earlier, including several major European and Asian markets. This indicates that geographical diversification was already occurring during the period under review. Press Information Bureau Diversification, however, is not an immediate substitute for the U.S. market. Alternative destinations may have different consumer preferences, product standards, logistics costs and purchasing volumes. Building distribution networks and establishing new commercial relationships can take years. India's objective should therefore be to maintain access to the U.S. market while broadening its export base.

11. Statistical Assessment of the Impact of U.S. Tariffs

A useful research paper should distinguish the observed performance of exports from the economic effect attributable to tariffs.

The available data provide three important findings.

12. Policy Responses Available to the Government of India

12.1 Strengthening bilateral trade negotiations

India and the United States announced a framework for an interim trade agreement on 6 February 2026. The framework envisaged an 18% reciprocal tariff rate for specified Indian-origin goods and potential removal of reciprocal tariffs on selected products, subject to the applicable agreement conditions. India's negotiating priorities could include:

- Greater certainty regarding applicable tariff rates.
- Clear and stable product exemptions.
- Predictable customs procedures and implementation timelines.
- Improved market access for labour-intensive exports.
- Protection of sensitive agricultural and domestic industrial interests.
- Mechanisms to resolve disputes over tariff classification and origin.

The economic objective is to reduce uncertainty for exporters while preserving the scope for mutually beneficial trade.

12.2 Supporting MSMEs

Targeted assistance can help small exporters manage temporary trade disruptions. Possible measures include better access to export credit, working-capital facilities, trade insurance, market intelligence and assistance with international quality certification.

Such support should be transparent, time-bound where appropriate and designed to improve long-term competitiveness rather than maintain permanently unproductive businesses.

12.3 Improving manufacturing competitiveness

India can strengthen its position through investment in infrastructure, logistics, reliable electricity, industrial clusters, workforce skills, technology adoption and research and development. For example, textile producers may benefit from improved processing technology, shorter delivery times and higher-value products. Engineering exporters may benefit from precision manufacturing, international certification and integration into global supply chains.

Productivity improvements help Indian firms compete on more than price alone.

12.4 Diversifying export destinations

India should deepen access to alternative markets through trade agreements, export promotion, commercial partnerships and better information about foreign consumer demand.

The objective is not to abandon the U.S. market. Rather, a wider portfolio of destinations can reduce the economic consequences of sudden changes in any single country's trade policy.

12.5 Promoting value addition

Exporting higher-value goods can improve margins and reduce vulnerability to price competition. India can encourage movement from basic commodities and intermediate products towards branded goods, specialised machinery, advanced electronics, technical textiles and other products with stronger domestic value addition.

Such a transition requires investment and skills development; it cannot be achieved simply by changing tariff policy.

12.6 Improving tariff monitoring and transparency

The government and industry associations could maintain an updated database showing product-level U.S. duties, exemptions, rules of origin and changes in customs treatment.

This would help exporters calculate landed costs, negotiate contracts and identify markets in which Indian products remain competitive.

13. Limitations of the Study

This research has several limitations.

1. The tariff regime changed repeatedly during the study period, making comparisons based on headline rates unreliable without product-level verification.
 2. The aggregate export figures do not establish the exact value of exports lost because of tariffs.
 3. The paper does not estimate the number of jobs lost or the resulting GDP reduction using a causal econometric model.
 4. Changes in global demand, electronics supply chains, exchange rates and other trade policies may have influenced the observed results.
 5. The latest policy announcements and exemptions may be subject to further changes. The applicable tariff for a specific product must be verified against the U.S. customs schedule in force at the time of import.
- Future research should use monthly product-level data, firm surveys, employment information and comparison groups to estimate the direct and indirect effects of tariff changes more precisely.

14. Major Findings

The analysis produces the following findings:

1. Tariffs can reduce competitiveness: Additional import duties can raise landed costs, weaken price advantages and shift demand towards alternative suppliers.
2. The effects differ across industries: Textiles, apparel, leather, footwear and selected jewellery products face different pressures from electronics and exempt pharmaceutical products.
3. Aggregate export growth can conceal sectoral losses: India's reported merchandise exports to the U.S. rose modestly in FY 2025–26, even as research identified declines among products bearing tariff costs.
4. Employment effects are potentially significant: Labour-intensive export sectors may face reduced orders, pressure on wages and working capital, and slower hiring. The magnitude of actual employment losses remains unquantified here.
5. Tariffs affect investment decisions: Uncertainty about future market access can discourage capacity expansion and delay long-term investment.
6. Diversification provides resilience, not an immediate replacement: Other markets can absorb some redirected exports, but differences in demand, standards and distribution networks limit how quickly diversification can offset a major market shock.
7. Predictable trade arrangements matter: Stable rules and clearly defined exemptions can improve exporters' ability to plan production and investment.

15. Conclusion

The U.S. tariff measures introduced and modified during 2025–2026 represent an important external trade-policy challenge for India. Their consequences extend beyond customs duties to include export pricing, industrial competitiveness, employment, working capital, investment and international economic relations. The evidence examined in this paper indicates that India's aggregate merchandise exports to the U.S. remained broadly resilient during FY 2025–26. Nevertheless, the reported weakness in tariff-exposed product categories suggests that aggregate figures may obscure the difficulties faced by particular industries and businesses. It would be incorrect to conclude either that tariffs caused a uniform decline across India's economy or that stable aggregate exports demonstrate an absence of harm. A balanced assessment must consider product-level tariff exposure, exemptions, competitor countries, domestic value addition and the counterfactual export performance that might have occurred without the measures. India's long-term response should combine continued trade negotiations with improved manufacturing productivity, targeted support for vulnerable exporters, wider market access and greater domestic value addition. These measures can help Indian businesses withstand external shocks while preserving the benefits of international trade. Ultimately, the economic impact of U.S. tariffs on India will depend on the duration and coverage of the measures, the stability of bilateral trade arrangements, and India's ability to strengthen its competitiveness in both established and emerging export markets.

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