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TRUMP'S 50% TARIFF TANTRUMS NECESSITATE SWIFT COURSE CORRECTION

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The announcement from Washington was blunt and brutal: from August 27, 2025, every Indian export landing on American shores will face a 50% tariff wall. The pretext? India's continued purchase of Russian oil and arms. The effect? A sledgehammer blow to the world's fastest-growing major economy and a reckless gamble with one of America's most consequential partnerships, thereby irreparably breaching the multi-dimensional India-US relations built assiduously over the years.

The Theatre of the Absurd

Jonathan Alter, an eminent journalist, wrote, "*All Presidents are blind dates*". Interestingly, the US GDP is likely to fall by 40-50 bps, inflation rise by 2%, and the currency faces a greater risk of downgrades compared to India. US tariffs are projected to cost the average U.S. household about $2,400 in the short term, mainly due to higher prices from tariff-driven inflation. Low-income families may lose around $1,300, nearly triple the relative burden compared to high earners, while high-income households could face losses of up to $5,000, though with less impact on their overall financial stability.

With almost 30 % of total global spending and about $ 5 trillion stock of foreign direct investment (FDI) (the largest globally), the USA remains the pivot of the global economy- the real mover and shaker. Trump's fulfillment of his promise of "*making America great again*" (MAGA) is making the world work again. Such aggressive views and evident backsliding can be substantiated by the theoretical underpinnings provided in a book called *No Trade Is Free* (2023) by Robert Lighthizer, who was the former US Trade Representative (USTR) in the first Trump administration. Lighthizer strongly argued for *"fair trade"* rather than free trade since the untrammelled play of market forces- Adam Smith's "*invisible hand*"- hurt American strategic interests. This marked a tipping point in global trade relations, characterized by protectionism, bilateralism, and strategic decoupling.

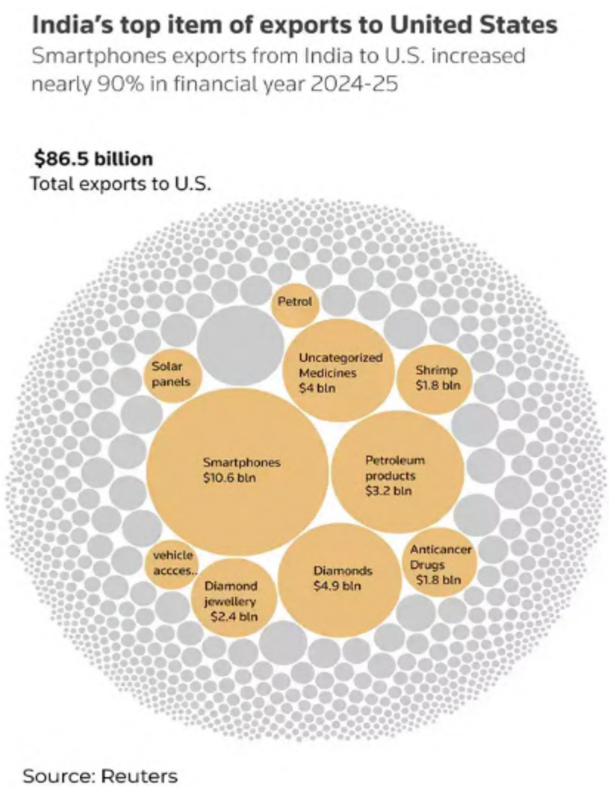
What makes it interesting is that such an ill-conceived measure is not in the interest of the US. The evidence is overwhelming, the pattern unmistakable. The Smoot-Hawley Tariff of 1930 worsened an already bad recession and drove the American economy into a deep depression– a classic case of the *Cobra Effect*, where good intentions backfire spectacularly, undermining the core principles of capitalism and free trade. What a remarkable alchemy, the utter futility of it all! President Trump has always made a strong case for "*the America First foreign policy*". But he would have done well to realize **"***the best laid plans of mice and men often go astray***".**

What America needs today is competitiveness, not higher tariffs. Shared prosperity depends on a more connected, secure, and efficient trading environment. The reasons for the so-called 'tariff terrorism' include internal weaknesses, such as asset monetization, lower crude prices, lower interest rates, a weaker dollar, and a resurgence in US manufacturing. The resonating apocalyptic appeal of WB Yeats (*The Second Coming,* 1919) forces us to look at the future with a sense of trepidation.

"Turning and turning in the widening gyre
The falcon cannot hear the falconer;
Things fall apart; the center cannot hold;
Mere anarchy is loosed upon the world,
The blood-dimmed tide is loosed, and everywhere
The ceremony of innocence is drowned;
The best lack all conviction, while the worst
Are full of passionate intensity."

Debilitating Impact on India

The hit was immediate and debilitating: textiles and apparel manufacturers in Tirupur, Noida, and Surat ominously stopped production amidst worsening cost competitiveness, rapidly losing out to lower-cost rivals from Vietnam and Bangladesh, giving Indian exporters from these geographies a run for their money.



For decades, India and the US have collaborated to weave an intricate tapestry of trade, technology, defense, and diplomacy. Now, with one sweeping stroke, that fabric risks being torn asunder, with extensive implications for trade, investment, growth, and diplomacy. This significant escalation in protectionist trade policy has immediate and long-term consequences for India's economy.

A Seismic Shift

India has traditionally enjoyed a trade surplus with the US accounting for nearly 17% of India's merchandise exports, including key sectors such as pharmaceuticals, textiles, IT services, gems and jewellery, engineering goods, and auto components. The 50% tariff drastically erodes the price competitiveness of these exports in the US market.

Indian exporters, already grappling with decelerating global demand and supply chain disruptions, will face reduced orders, constricted margins, and imminent job losses. Export-oriented sectors, such as textiles and apparel, which are highly price-sensitive, would be the worst hit. For pharmaceuticals, where India is a key supplier of generic drugs to the US, higher tariffs would reduce market share to competitors from countries with preferential trade arrangements. A flat 50% tariff makes these exports instantly uncompetitive.

Reduced export revenues will also worsen India's current account balance, exacerbating pressure on the rupee and potentially raising imported inflation.

Moving from the Bigger Picture to Granular Implications

- **Agriculture**: India's agricultural exports, such as rice, spices, and marine products, which find large markets in the US, will become less competitive. Farmers and small traders could face reduced incomes.

- **Gems and Jewellery**: This labour-intensive sector, employing about 5 million skilled and semi-skilled workers, could face severe demand compression, leading to retrenchments and layoffs.

- **IT and Services**: Services may not be directly subject to tariffs. But the move signals an unfriendly trade stance, which could spill over into restrictions on visas and outsourcing.

- **Auto and Engineering Goods**: Tariffs will erode India's competitiveness in these medium-technology exports, threatening both manufacturing output and employment. Factories risk slowdowns, workers risk pink slips, and the "*Make in India*" vision is hit.
- **Textiles & Apparel**: Margins will evaporate in a sector where pennies decide contracts. Millions of livelihoods are at stake.
- **Leather & Footwear**: This high labour-intensive and export-oriented sector, facing 50 % tariff- way above the competing countries like Vietnam and Indonesia, will be crippled.
- **Pharmaceuticals**: Indian generics-lifelines for American households- will cede market share to rivals with easier access. Ironically, American consumers will pay the price, too.

- **Shrimps**: Shrimp exports to the US will be hugely hit by global competitors, e.g., Ecuador.

Transcending trade flows, this move dents jobs, incomes, and India's growth story. Exports worth US$48 billion are directly in the line of fire. The knock-on effect on the rupee, inflation, and investor confidence will not be inconsequential.

Sector-wise Impact of US Tariffs On Indian Exports

Product Group	Exports to USA ($ bn, FY2025)	US Share in India's Exports (%)	US MFN Tariff (%)	New Trump Tariff (%)	Total Tariff Payable (%)	Impact on India
Shrimps	2.0	32.4	0.0	50.0	60.0	V High, 10% CVD
Petroleum products	4.1	4.3	6.9	0.0	6.9	Low
Organic chemicals	2.7	13.2	4.0	50.0	54.0	V High
Pharmaceuticals	9.8	39.8	0.0	0.0	0.0	Low
Carpets	1.2	58.6	2.9	50.0	52.9	V High
Apparel; knitted	2.7	34.5	13.9	50.0	63.9	V High
Apparel; woven	2.7	32.2	10.3	50.0	60.3	V High
Textiles, made up	3.0	48.4	9.0	50.0	59.0	V High
Diamonds, gold and products	10.0	40.0	2.1	50.0	52.1	V High
Steel, Aluminium, Copper	4.7	16.6	1.7	50.0	51.7	High
Machinery and mechanical appliances	6.7	20.0	1.3	50.0	51.3	V High
Smartphones	10.6	43.9	0.0	0.0	0.0	Low
Vehicles, and parts (HS87)	2.6	11.4	1.0	25.0	26.0	Medium,
Furniture; bedding, mattresses	1.1	44.8	2.3	50.0	52.3	V High

Source: GTRI analysis based on DGCI&S data and US tariff notifications

Macroeconomic Consequences Going Beyond Reducing GDP

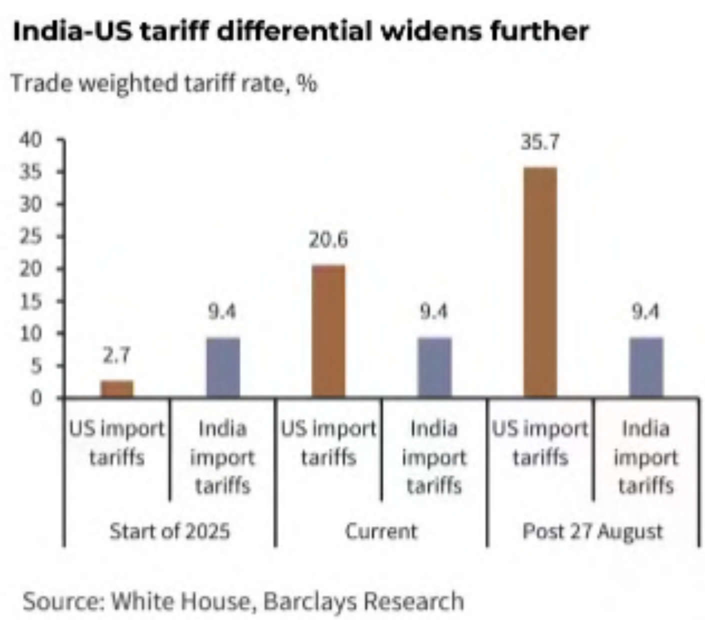
At a macro level, the tariffs could widen India's trade deficit by about 0.5%, dent GDP growth by 0.3–0.5 %, and the rupee may weaken modestly. Why? Because of lower exports, factories running below capacity, exporters defaulting on loans, job losses, and reduced foreign exchange inflows. About ~US$48.2 billion of merchandise exports to the U.S. could face 50% tariffs. Up to 2 million jobs are at risk in the near term. Investor sentiment may weaken, as global firms view the US-India economic relationship as uncertain and politically vulnerable in a world of geopolitical churn.

The move may also discourage further foreign direct investment (FDI) into export-oriented industries, as India's economic stability seems susceptible to Washington's mood swings. Yet the bigger picture is less gloomy: India's export base is diversified, its corporate earnings and inflation outlook remain intact, and domestic demand is robust enough to cushion the blow.

India, in its first countermeasure to US President Donald Trump's 50% tariff on Indian goods, announced dedicated outreach programmes in 40 key markets, including the UK, Japan, and South Korea, to boost textile exports. The targeted push will also cover Germany, France, Italy, Spain, the Netherlands, Poland, Canada, Mexico, Russia, Belgium, Turkiye, the UAE, and Australia.

Diplomatic and Strategic Dimensions

The imposition of such high tariffs challenges the strategic partnership between India and the United States, which had been strengthening in recent years through defense cooperation, technology transfers, and Indo-Pacific collaboration. India rightly perceives the move as unilateral and unjust, especially since it violates World Trade Organization (WTO) principles of non-discrimination and fair trade.



This is not just a trade war; it's a test of trust. The India–US relationship has been praised as the "*defining partnership of the 21st century*." Defense collaboration, Indo-Pacific efforts, and technology transfers are now imperilled.

For India, diplomacy in the dock is a stark reminder that Washington's rhetoric of partnership often falls apart when domestic political pressures come into play. India might consider retaliatory tariffs on US goods, such as agricultural products, whiskey, and motorcycles, although the imbalance in bilateral trade reduces the impact of such measures. Imposing duties on American whiskey or Harley-Davidsons may hog headlines, but won't level the playing field. The best response is to diversify by strengthening trade relations with the EU, ASEAN, Africa, Latin America, and by building domestic resilience.

Selective Application of Norms-Case of Double Standards

US Trade Adviser Peter Navarro described Russia's ongoing war with Ukraine as Indian Prime Minister Narendra "*Modi's war*", stepping up pressure on Delhi to stop buying oil from Moscow. Navarr averred, "*Everybody in America loses because of what India is doing. The consumers and businesses and everything lose, and workers lose because India's high tariffs cost us jobs, factories and income and higher wages. And then the taxpayers lose because we got to fund Modi's war…What's troubling to me is that the Indians are so arrogant about this. They say, 'Oh, we don't have higher tariffs. Oh, it's our sovereignty. We can buy oil from anyone we want.' India, you're the biggest democracy in the world, okay, act like one*."

Such comments are undiplomatic and nasty and amount to hitting below the belt. There are no permanent friends in international relations, only permanent interests. Supporting dictators is not unusual for the United States- the cases of China under President Deng, Cuba under Batista, Iraq under Saddam Hussein, Saudi Arabia, Egypt, etc. immediately come to mind. Data does not lie; here's a list of authoritarian governments supported by the United States over the years:

Country	Regime or leader	Time period
Argentina	National Reorganization Process	1976–1978, 1981–1982
Uruguay	Civic-military dictatorship of Uruguay	1973–1985
Brazil	Military dictatorship in Brazil	1964–1985
Chile	Military dictatorship of Chile	1973–1976
Nicaragua	Somoza dictatorship	1961–1977
Greece	Greek Junta	1967–1974
Pakistan	Mohammed Ayub Khan	1958–1969
Pakistan	Yahya Khan	1969–1971
Pakistan	Zia-ul-Haq	1978–1988
China	Deng Xiaoping	1980–1989

Cuba	Fulgencio Batista	1952–1958
Iran	Ayatollah Khomeini	1981–1986
Iraq	Saddam Hussein	1982–1988
Oman	Qaboos bin Said and Haitham bin Tariq	1970–present
Philippines	Ferdinand Marcos	1973–1986
South Korea	Syngman Rhee, Park Chung-hee and Chun Doo-hwan	1950–1988
South Vietnam	Ngô Đình Diệm	1955–1963
Soviet Union	Joseph Stalin	1941–1945
Yemen	Ali Abdullah Saleh	1990–2012
Equatorial Guinea	Teodoro Obiang Nguema Mbasogo	1979-present
Gabon	Omar Bongo Ali Bongo Brice Oligui Nguema	Gabon–United States relations
Egypt	Hosni Mubarak and Abdel Fattah el-Sisi	1989–present
Turkey	Kenan Evren Recep Tayyip Erdoğan	1952–present
Saudi Arabia	House of Saud	1945–present
Soviet Union	Joseph Stalin	1941–1945
Yemen	Ali Abdullah Saleh	1990–2012
Equatorial Guinea	Teodoro Obiang Nguema Mbasogo	1979-present
Gabon	Omar Bongo Ali Bongo Brice Oligui Nguema	
Egypt	Hosni Mubarak and Abdel Fattah el-Sisi	1989–present
Turkey	Kenan Evren Recep Tayyip Erdoğan	1952–present
Saudi Arabia	House of Saud	1945–present
Qatar	House of Thani	
Bahrain	House of Khalifa	
UAE	Royal families of the United Arab Emirates	
Pahlavi Iran	Mohammad Reza Pahlavi	1953–1979
Indonesia	Suharto	1967-1998
Taiwan	Dang Guo regime	1937-1987
El Salvador	Military dictatorship in El Salvador	
Paraguay	Dictatorship of Alfredo Stroessner	
Guatemala		
South Korea	Yoon Suk Yeol	2022–2024
Haiti	Duvalier dynasty	
Jordan	House of Hashim	
Zaire	Mobutu Sese Seko	
Chad	Hissène Habré	
El Salvador	Nayib Bukele	2024–present

The US continues to buy rare earths from China and source critical inputs, such as, Uranium and other plutonium from Russia. Hence, this kind of a stand of singling out India is not only unjust but also uncharitable- a case of the kettle calling the pot black!

Strategic Options and Choices

The path of least resistance is the easiest to take, but is it desirable? No, a resounding no. India's calibrated overtures- reviving dormant trade pacts, expanding digital and service exports, and enhancing rupee settlement frameworks - have helped cushion the short-term impact.

History reveals that crises often force countries to reinvent themselves. Yet, the deeper question in navigating this new, high-tariff environment remains: Can India use this defining moment to accelerate Make in India 2.0, strengthen supply chains, and diversify export markets to bring about a paradigm shift from the throes of pain to the seeds of long-term gain? An element of the growth-theoretic approach could be to reduce India's dependence on Chinese inputs while avoiding overt conflict with either the US or China.

Despite the traction of India's PLI schemes, Make in India 2.0, and the diversification into sunrise sectors, manufacturing is unacceptably low, making the runway to trade self-reliance long and steep. Hence, a broad-spectrum strategy needs to be employed, focusing on:

- **Broadening Manufacturing:** India's manufacturing base, stuck at 14% of GDP, must expand to withstand such shocks.
- **Supercharging PLIs and FTAs:** Push aggressively into sunrise sectors, upgrade FTAs with Europe and the UK, and join deeper value chains.
- **Simplifying Tariffs & Attracting Capital:** Rationalize tariffs, woo anchor investors, and build ecosystems that can compete globally.
- **Exercising Diplomatic Muscle:** Use backchannels, creative negotiation, and coalition-building at the WTO to make tariffs politically costly for Washington.
- Competitiveness amidst geopolitical churn must now occupy centre stage. The focus must shift from reaction to resilience, from tariff tinkering to long-term trust-building.

There has been pressure on India to provide critical market access across sectors, including dairy, agriculture, digital trade, and pharmaceuticals. But India stood its ground resolutely because of its vulnerabilities and susceptibilities, necessitating the protection of the interests of farmers and small businesses. India also asked for relaxations on higher U. S. steel and aluminium tariffs. India demands fairness, respect, and reciprocity in an unequivocal rejection of a unilateral "*take-it-or-leave-it*" offer in this evolving landscape.

India's Lakshman Rekha

An Indian prism requires strategic repositioning and diversified trade outreach to maintain India's export competitiveness. This tariff terror could be a blessing in disguise, provided domestic firms and industries in India retool their inputs, outputs, and finished products to slash costs and achieve operational efficiency, and an uninterrupted supply chain for growth, structural transformation, resilience, and reducing concentration risk.

A vitalising industrial strategy, more strategic macro initiatives like Make in India, local for global, PLIs, diversifying export basket, and value addition are difficult but not impossible. However, this necessitates swift, synchronised measures by all stakeholders. Such measures include tariff rationalisation, attracting anchor investors, rising participation in global value chains (GVCs), simplifying the tariff structure, and reducing tariffs on imports, where domestic capabilities are inadequate.

India must re-negotiate contracts with shared tariff burden where feasible; tighten origin/compliance to avoid secondary frictions; and upgrade FTAs (EU, UK, EFTA implementation), deepen Mexico/Canada links for North America value-chain access.

New Delhi has consistently rejected unilateral "*take-it-or-leave-it*" deals, whether in agriculture, dairy, or digital trade. Protecting vulnerable farmers and small enterprises is non-negotiable. India seeks reciprocity, not charity; partnership, not coercion.

Simultaneously, India must use backchannels, negotiations, creative diplomacy, and intense lobbying efforts for a multitude of socio-economic, security, and technological reasons in an adroit tight-rope walking. But all's not lost-no way.

Pathway To the Future - A New Growth Compact

Such extreme tariffs amount to economic blackmail. But they may also be the shock therapy to smash the vicious cycle of complacency and dependence. With industry, policymakers, and diplomats acting in concert, today's tariff terror could become tomorrow's transformative trigger by a mix of measures:

1. **Short-term Measures**: In the short term, India should focus on negotiating with the US to reduce tariffs and increase market access.
2. **Medium-term Measures**: In the medium term, India should focus on diversifying its exports, increasing competitiveness, and promoting domestic manufacturing.
3. **Long-term Measures**: In the long term, India should focus on investing in infrastructure, encouraging foreign investment, and engaging in trade diplomacy to become more competitive in the global economy.

India can mitigate the impact of Trump's tariffs and become more competitive in the global economy by adopting these measures.

The task ahead is difficult, but with sincerity of purpose and concerted efforts, we can - and we will-surmount this challenge. What is required is to go full steam ahead and fire on all cylinders to generate sources of competitive advantage. This tipping point is reminiscent of President John F. Kennedy's Inaugural Address (1961), "*With a good conscience our only sure reward, with history the final judge of our deeds, let us go forth to lead the land we love, asking His blessing and His help, but knowing that here on earth God's work must truly be our own*". We simply cannot give up: when the going gets tough, the tough get going. "*This too shall pass*"!

For now, the world warily watches a high-stakes drama unfold. Will India bow, break, or bounce back? As Lord Alfred Tennyson wrote in his *magnum opus Ulysses*, "*To strive, to seek, to find, and not to yield*", underscoring the centrality of perseverance and a refusal to succumb to the limitations of age and circumstance. An indefatigable mindset of never say die, deepening domestic value chains, innovation, business process reengineering (BPR), and product differentiation with a shift from mass-market, price-sensitive products to niche, high-margin offerings despite the vicissitudes of life and economic activity, is necessary to overcome the travails of transition in an increasingly complex and interconnected financial ecosystem. Failure is not an option.