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Impact of Reciprocal Tariff by US on Indian Economy

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Abstract- The imposition of reciprocal tariffs by major trading partners, notably the US, Presents a multifaceted challenge and opportunity for the Indian Economy. While some predict a negligible Impact on Indias Overall GDP and Exports due to the Economy's domestic demand focus and relatively closed nature, significant concerns arise for specific Export oriented sectors. Reciprocal tariffs can lead to reduced competitiveness and Export volumes in affected industries, potentially resulting in decreased revenue and job losses. However, they also creates an impetus for India to diversity it's trade relationships, strengthen domestic manufacturing, and negotiate favourable terms in "Bilateral Trade Agreements". The long term implications depend heavily on the severity of the tariffs, India's retaliatory measures, and the effectiveness of it's strategic response. The recent imposition of a 50% tariff by the US on Indian Export sectors, Especially those in dabur-intensive industries. Key affected sectors are – "Engineering goods, Textiles and Apparel, Pharmaceuticals, Auto Components and Parts, Seafood and Leather goods".

Keywords-Reciprocal tariff, Export- oriented sectors, Negotiate, Impetus, Imposition, Bilateral Trade.

INTRODUCTION

Reciprocal tariffs are import duties imposed by a Country on goods from another Country in response to that Country's tariffs on its Exports. Those tariff arm to create a level Playing field in International Trade by matching the tariff rates imposed on each other's good. Reciprocal tariffs can be double- Edged sword (both positive and negative impacts) aimed at promoting fair trade and protecting domestic industries but carrying the risk of escalating (to cause something to become stronger or more serious). President trump's administration, citing trade imbalances, has implemented tariffs ranging from 10% to 14% across various Countries, with Indian imports specially facing a 50% tariff. India faces a relatively higher tariff rate Compared to some Asian Counter parts like Vietnam (20%) and Indonesia (19%) Potentially Putting Indian Exports at a disadvantage in terms of price Competitiveness. While the Exact impact of these tariffs is still being analyzed and debated; several implications for the Indian Economy and specific sectors are anticipated. According to "India Brand Equity Foundation" (IBEF) in FY24; India had a trade surplus of $36.8 billion with US. Indian Exports to the US stood at $77.5 billion, while American Exports to India stood at $40.7 billion in FY24. So, Exports see limited impact of Trump tariff on Indian business and Economy.

LITERATURE REVIEW

Examining the literature reveals a Complex and multifaceted impact on the Indian Economy.

1. Potential negative impacts-

a) Reduced Export competitiveness- Reciprocal tariffs can increase the cost of Indian Exports in the imposing Country's market, making them less competitive Compared to Products from Countries with lower or no tariff.

b) Declining trade with specific partners- The imposition of reciprocal tariffs on Indian goods can lead to decrease in trade with the tariff imposing Country, forcing Indian Exporters to seek alternative markets or face reduced demand.

c) Disruption of Global supply chains- Protectionist measures, including reciprocal tariffs, can disrupt India's participation in global supply chains, increasing Costs for critical imports like semiconductors.

d) Potential for reduced Investments- Trade Policy uncertainty arising from tariffs can determine FDI inflows, impacting Economic growth.

e) Macroeconomic Instability- Protectionism and retaliatory measure can Contribute to inflationary pressures, widening current account deficits and increased Volatility in foreign exchange markets.

2. Potential mitigating Factors and opportunities-

a) Diversifications of Markets and Products- Indian business are exploring diversifications strategies to reduce reliance on specific markets and sectors impact by tariffs.

b) Govt initiatives and negotiations – The Indian Govt is actively engaged in trade negotiation with the US and Exploring bilateral trade agreements to mitigate the impact of tariffs and secure market access.

c) Depreciation of rupee- A walking rupee can partially offset the impact of tariffs by making Indian Exports Cheaper.

3. Areas for further research-

a. Sectoral impact and Competitiveness- Investigate the specific impact of reciprocal tariffs on the key Indian Export sectors like gems and jewelry, textiles, Electronics, and automobiles. Analyze how these tariffs affect the Competitiveness of Indian Industries compared to other global Players, especially in light of differing tariff rates among Countries. Examine the potential for domestic manufacturing growth and diversification as India adopts to the new tariff regime.

b. Macroeconomic and financial implications- Assess the potential impact of tariffs on India's overall Economic growth, inflation, and Current stability. Study the Effects of tariffs on foreign investment Flows and market investment Analyze the role of the RBI in mitigating Potential negative impacts on the Economy through monetary Policy adjustments.

c. Alternative markets and Export diversification- Investigate opportunities for Indian Exporters to diversify in to new market to reduce dependence on Countries imposing tariffs. Explore the Potential for India to strengthen trade ties with other regions or Participate more efficiently in Global value chains.

RESEARCH QUESTIONS

1) How will reciprocal tariff affect India's GDP growth?

Impact on GDP growth

a) Reduced Exports- While India's Economy is largely driven by domestic demand, a significant decline in Exports due to tariffs could have a marginal but noticeable impact on overall GDP growth.

b) Supply Chain disruption- Tariff can disrupt existing supply chains, impacting industries that rely on imports from the affected countries or whose Exports are part of global supply chains.

c) Uncertainty and Investor Confidence- The Unpredictability of trade policy can create uncertainty, Potentially impacting investment decision and overall business sentiment, which in turn could affect economic growth.

2) What are the immediate and direct impacts on India's Export to the US?

The 50% reciprocal tariff imposed by the US will have a significant and immediate impact on India's Export to the US.

a) Shift in market Focus- Indian Exporter will likely need to explore alternative markets to Compensate for the reduced demand from the US.

b) Competitive disadvantage- Indian Exporter will face a 30% to 35% competitive dis-advantage Compared to Peers from Countries with lower reciprocal tariffs.

3) What are the potential broader Economic implication for Indian, beyond direct Export losses?

The tariff could have several broader Economic implications.

a) Reduced GDP growth- Brokerages like Citi have warned of a Potential 0.6-0.8% Point downside to India's annual GDP growth due to tariffs.

b) Reduced F.D.I- Protectionist measures and resulting trade tension can create uncertainty and discourage FDI, in India.

c) Inflationary Pressures – Higher tariffs on imports could increase the cost of goods for Indian consumers and industries, Potentially Contributing to inflation.

d) Pressure on the Indian rupee- Higher import Costs and the trade deficit could put pressure on the Indian rupee; Potentially leading to it's depreciation.

4) What strategies can India employ to mitigate the negative impacts and Potentially find opportunities amidst the situation?

a) Negotiation and diplomacy- India could continue Engaging in negotiations with the US to

Potentially roll back or reduce the tariffs, focusing on fair and balanced trade agreement.

b) Diversification of export markets- Focusing on diversifying Exports markets away from the US to reduce dependence on a single trading partner.

c) Strategic use of Industrial Policy- Implementing the policies like the Production- linked Incentive (PLI) scheme to Promote domestic manufacturing and enhance India's role in global value chains.

The trends in India-US trade in agricultural and Industrial goods before and after the imposition of tariffs.

SI. No	Trade Indicator	2023	2024	2025
1.	India's Export to US (USD billion)	77.2	79.5	↓ 74.3 (6.5%)
2.	India's imports from US (USD billion)	46.0	47.8	↓ 45.1 (5.6%)
3.	Export of Indian Agricultured Products to US (USD billion)	4.5	4.7	↓ 4.1 (12.8%)
4.	Export of Indian Industrial goods to US (USD billion)	25.4	26.3	↓ 23.2 (11.8%)

Source- Ministry of Commerce and Industry Govt of India, and US Census Bureau Trade Data, 2023-2025 (Provisional |Post-tariff Projections).

It is Evident from the table that a noticeable decline in India's total Exports to the US 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.

OBJECTIVE

1. To analyse the impact of reciprocal tariff by US on Indian Economy.
2. To analyse the impact of reciprocal tariff by US on Indian Exports, and imports sector.
3. To analyse the impact of reciprocal tariff by US on India's GDP growth, according to the Monetary Policy (RBI) Report, August, 2025.
4. To analyse the impact of reciprocal tariff by US on Indian's forex reserve.
5. To suggest Policy recommendations for India to mitigate the adverse effect of the tariff Policy and enhance trade resilience.

Impact on Foreign Exchange reserves for both Countries.

Impact on India

- Trade deficit and currency depreciation.
- Rupee vulnerability.
- Foreign exchange reserve interventions.
- GDP growth impact.

Impact on the US

- Potential for higher prices for US consumers.
- Overall global trade and Economic uncertainty.

Impact of reciprocal tariff on India's GDP growth according to RBI, Monetary Policy committee (MPC) Report, August, 2025.

In its August 2025 meeting, the RBI Monetary Policy Committee (MPC) kept the repo rate unchanged at 5.5% despite the Potential impact of US tariffs. This decisions reflects the MPC's assessment that, while external factors like the US tariffs pose a risk, India's domestic growth remain resilient and inflation is currently manageable.

1. Insulation- RBI governor started that India's economy is relatively less reliant on external factors when it comes to inflation dynamics.
2. External sector- India's External sector faces continued uncertainty due to the risk of reciprocal US tariffs, with Potential impact on merchandise exports are expected to remain healthy.
3. Forex reserves- India's comfortable foreign Exchange reserves ($ 689 billion as August 6, 2025) Provide a buffer against potential global Uncertainties, Covering approx. 11 months of merchandise imports.
4. GDP growth- The MPC maintained its GDP growth projection for FY26 at 6.5% according to RBI, MPC Committee (August, 2025). i.e MPC maintain it's focus on balancing Economic growth

with price stability, as indicated by the unchanged repo rate and the inflation forecast.

5. Inflation Outlook- The inflation Projection for FY26 was lowered to 3.1%. However, RBI expects inflation to rise to 4.9% in FY27, above its 4% target, due to Potential increase in food price and external shocks.

Policy recommendations for India to mitigate the adverse effects of the reciprocal tariff-

1) Enhancing domestic Competitiveness and manufacturing-
a) Investing in research and development and Innovation.
b) Improving ease of doing business.
c) Targeted support for SMEs and Vulnerable sectors.

2) Strategic trade diplomacy and diversification-
a) Expediting Free Trade Agreements (FTAs)- Prioritizing and Concluding (FTAs) with the key Partners like the European Union and ASEAN Countries will reduce reliance on a single market and create alternative export destinations, mitigating the impact of Potential tariffs.
b) Diversifying Export markets- Actively exploring and strengthening trade relations with other religions, including the Middle East, Latin America, Africa and South Asia, can reduce dependency on specific market like US.

3) Advantage for a Force and Equitable global trading Environment-
a) Deploying Anti- Dumping Policies.
b) Negotiating Bilateral Trade Agreements

CONCLUSION

Reciprocal tariff pose a significant challenge to India's export – driven Economy. However by implementing a Calibrated approach that includes strategic reorientation, domestic strengthening, export diversification, and targeted Policy responses, India can mitigate these impacts. Focusing on Enhancing competitiveness, fostering partnerships, and building self- reliance can help India navigate the evolving global trade system.

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