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US tariffs to cast a shadow over Indian exports

BIG BLOW. Move will create significant headwinds for India's GDP growth and highlights the competitive disadvantage the country faces against Asian rivals

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Disappointment among industry experts over US President Donald Trump's unilateral announcement of 25 per cent tariff on Indian goods with potential secondary sanctions was compounded by the concern that these levies have put Indian exports at a distinct disadvantage compared to competitors such as Vietnam and Indonesia, which have already brokered trade deals with the US, facing tariffs of 20 per cent and 19 per cent, respectively.

While they still hoped for a comprehensive bilateral trade agreement by October, the experts believed India still has to stand firm on US demands that are not aligned with national interests.

Ashwani Mahajan, National Co-Convenor, Swadeshi Jagaran Manch, said: "We have to carry international trade under the rules set by WTO which does not stop us from buying anything from anywhere. That's the whole idea of free trade and the US has been a big supporter of the free trade framework.

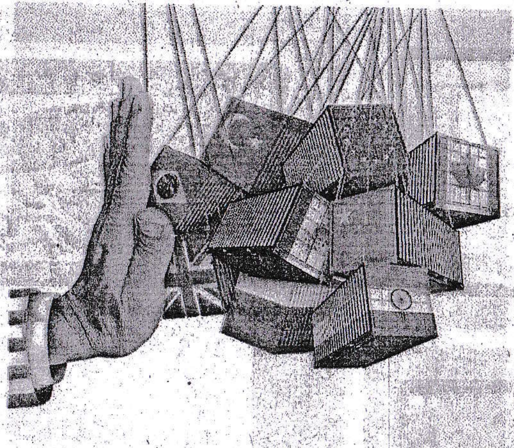
This is not a unipolar world. This is the new world order and this is New India. India has been able to keep the prices of oil lower and keep inflation under check by buying oil from Russia and this has been done for the welfare of people. In fact, this move by India has helped keep inflation lower globally.

'FLEETING PHENOMENON'

Buying defence equipment from Russia, is also in line with India's goal of self-reliance. It has helped us fight terrorism and maintain the sovereignty of the country. We have always advocated for keeping non-trade issues aside when negotiating trade issues. The negotiations are going on. In fact, India has been negotiating on equal footing."

Harsha Vardhan Agarwal, President of FICCI, acknowledged the clear impact this would have on the country's export figures but expressed hope that this would be a fleeting phenomenon, leading to a swift and permanent trade deal.

"US is an important market for Indian exporters, both in goods and in services and industry would like to have a long-term permanent agreement with the country. As our Commerce and Industry Minister has emphasised that India would prioritise national interests over meeting the deadlines in trade negotiations. The aim is to secure a beneficial pact rather than a hurried deal that gives short-term benefit but may result in adverse outcomes in the long term. It is also important to note that India offers a large market for US businesses and many of the large companies from the US benefit from leveraging the demand as well as the skills and talent pool that we have to offer," Agarwal said.



FIRM STAND. Experts believe India still has to stand firm on US demands that are not aligned with national interests.

Adding to the economic analysis, Aditi Nayar, Chief Economist at ICRA, indicated that the newly-proposed tariff, being higher than their initial expectations, is poised to create a significant headwind for India's GDP growth. ICRA had previously adjusted its FY2026 GDP expansion forecast to 6.2 per cent based on earlier tariff discussions, but the increased tariff rate now suggests a greater downside, the full extent of which will depend on the magnitude of any imposed penalties.

Garima Kapoor, economist and executive vice-president of Elara Capital, particularly highlighted the competitive disadvantage India now faces. She pointed out that peers like Vietnam, Indonesia, and the Philippines, which compete with India in similar categories of labour-intensive products and electronic goods, benefit from lower tariff rates into the US market.

Kapoor observed that the currency market had clearly anticipated this development, evident in the more than 70 paise movement in the USD-INR pair. While exact details on exempted items like pharma, and differential rates for iron, steel, and auto are currently unknown, she cautioned that the inclusion of pharmaceuticals in the tariff net would be incrementally negative for India's exports, given t[he] US accounts for over 30 p[er] cent of the country's tot[al] pharma exports. Kapoor fu[r]ther warned that a failure [to] sign a trade deal by Octob[er] could lead to a 20 basis poi[nt] downside to India's full-ye[ar] GDP growth estimate.

TRADE FRICTION

Nachiketa Sawrikar, Fun[d] Manager at Artha Bhar[at] Global Multiplier Fun[d] pointed out that ASEA[N] countries generally face tar[iff] rates of 19-20 per cen[t] with Bangladesh also aimin[g] for a similar range, suggest[ing] that while the news is no[t] ideal for India, it "could hav[e] been worse."

Kunal Chaudhary, Ta[x] Partner at EY India, suggested that while these tariff[s] could create short-term challenges for the electronic[s] and manufacturing sectors influencing supply chain di[]versification and strategi[c] alignment between the tw[o] economies, they also high[]light a crucial need for India

He said while temporary uncertainty for cross-border investors and OEMs evaluating India as an export base is inevitable, these tariffs underscore India's imperative to enhance its competitiveness through lower input tariffs, stronger trade access, and accelerated infrastructure execution.

Manoj Mishra, Partner and Tax Controversy at Grant Thornton Bharat, described the announcement as a sharp escalation in US-India trade tensions. He noted that while US concerns over India's tariff levels and regulatory barriers are not new, this unilateral step could significantly impact India's export competitiveness.

Mishra believes the strong language employed regarding market access and non-tariff measures signals deeper trade friction, advocating for India to recalibrate its trade strategy by aligning more closely with global norms.