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# Trump tariffs: End of road or a new journey ending Russia reliance?



## Synopsis

On Wednesday, US President Donald Trump announced a 25% tariff on Indian exports. However, based on the limited impact of previous restrictive trade measures, such as the withdrawal of the Generalised System of Preferences, the overall effect on India's exports is expected to be relatively modest.



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Before the August 1 deadline, US President Donald Trump decided to impose [a 25% tariff on Indian exports](#). He also floated the possibility of an additional penalty on Indian exports, which could go up to [100% as a surcharge, targeting countries that continue trading oil with Russia](#).

Trump seems to care less about ‘friend’ India, as trade with India accounts for a much smaller share compared to the US trade with China. Because of US interests, [China is likely to get a better trade deal than India](#), for instance, removal of restrictions of the US chip-design software exports to China.

This is not the first time Trump has taken a hard line on India. During his earlier stint as the president, not only did Trump label India as the “tariff king,” but he also removed the country from the Generalised System of Preferences (GSP).

Under the [GSP](#), established by the Trade Act of 1974, US policymakers allowed imports of around 3,500 products from designated beneficiary countries — primarily low-income nations — at a preferential duty-free (zero-tariff) rate. The aim was to help these countries increase and diversify their trade with the US. According to the World Bank, a [“low-income”](#) country is defined as one with a per capita income of less than USD1,045 per year in 2024.

### **Limited GSP impact**

As US remains India’s largest export destination, it is only natural to feel the pressure with increasingly restrictive trade measures in place. Around [18% of India’s total exports](#) are directed to the US, with a value of USD77 billion in 2023, and USD78 billion in 2024.

However, if previous restrictive trade measures, [including the withdrawal of GSP](#), are any indication, then the impact has been relatively modest. A quick review of the items qualified under the GSP reveals that they primarily fall under categories such as textiles and apparel, watches, footwear, work gloves, automotive components, and leather apparel.

Among these key export categories, some items within textiles and apparel and automotive components were included in the GSP list. Additionally, exports of

organic chemicals, steel, and certain engineering goods — such as nuclear boilers, machinery, and mechanical appliances — were also impacted by the withdrawal of GSP benefits.

However, the value of these items as a proportion of total Indian exports to the US is relatively small. India's exports to the US are mainly comprised of diamonds (19%), packaged medicaments (14%), refined petroleum products (8.9%), automotive components (2.1%), and textiles and apparel (3.7%). The percentages represent the share of India's exports to the US as a percentage of India's total exports.

### **India-UK FTA cushion**

The recent signing of the [India-UK Free Trade Agreement \(FTA\)](#) is expected to help offset some of the negative effects of excessive tariffs in the long run. Indian policymakers had anticipated a tariff around 20%, but Trump ultimately imposed a 25% rate.





















































Thanks to the India-UK FTA, India stands to benefit from zero tariffs on 99% of its exports, particularly in sectors like textiles, jewellery, pharmaceuticals, automotive parts, and information technology services – areas that commentators fear could be negatively impacted by higher US tariffs.

### **Shared burden**

Indian exports to the US are also likely to be less affected in relative terms, since Trump has unilaterally imposed tariffs on countries whose exports compete with India in the US market.

For example, Bangladesh (35%), Thailand (36%), Vietnam (20%), Indonesia (19%), Malaysia (25%), and the Philippines (19%) – some of India's competitors in leather, textiles, and machinery – are equally impacted, with the percentage indicating their respective tariff levels.

## U.S. Tariff Rates on Imports: Before and After 2025 Tariffs

Partner	Average tariff pre-2025 <small>(Average applied tariff, weighted by reference group imports)</small>	Initial reciprocal tariff <small>(April)</small>	New tariff and evolution since April <small>(July)</small>
 Brazil	2%	10%	50% 
 Myanmar	2%	44%	40% 
 Lao, PDR	4%	48%	40% 
 Canada	0%	0%	35% 
 Cambodia	2%	49%	36% 
 Thailand	3%	36%	36% 
 Serbia	2%	37%	35% 
 Bangladesh	4%	37%	35% 
 Mexico	0%	0%	30% 
 South Africa	1%	30%	30% 
 Algeria	2%	30%	30% 
 Iraq	2%	39%	30% 
 Sri Lanka	2%	44%	30% 
 Bosnia and Herzegovina	2%	35%	30% 
 Libya	4%	31%	30% 
 Korea, Republic of	0%	25%	25% 
 Tunisia	2%	28%	25% 
 Moldova	2%	31%	25% 
 Kazakhstan	2%	27%	25% 
 Brunei Darussalam	4%	24%	25% 
 Malaysia	4%	24%	25% 
 Philippines	2%	17%	19% 
 Indonesia	2%	32%	19% 
 Viet Nam	4%	46%	20% 
 Japan	3%	24%	15% 
 United Kingdom	4%	10%	10% 

Disclaimer: Tariff rates shown reflect proposed or announced levels as of July 29, 2025. The specific products affected and the way tariffs are enforced (e.g. whether they come on top of existing applied rates) will likely vary across countries with the eventual outcome pending ongoing negotiations.

Source: Market Access Map, International Trade Centre; White House Fact Sheet (July 2025)

Source: International Trade Centre

## Strengthening the home front

To better withstand external shocks — whether from protectionist tariffs or even war — India should focus on making its manufacturing sector/exports more competitive and focus on its domestic economy. The Indian economy benefits from a strong domestic sector, with domestic consumption, government spending, and private investment together accounting for nearly 80% of the country's GDP.

Over the past decade, India's import bill from Russia for arms has steadily come down with Russia accounting for 72% of imports in 2010-14 to just about 36% in 2020-24. At the same time, domestic production of arms has gone up sharply, with a 174% jump since 2014 and deals with the US, Israel and France have increased.

The last defence deal for a major new Russian weapon system was signed in 2019 for the production of AK 203 assault rifles in India. India has also abandoned joint development projects with Russia, opting for diversification and advanced technology, particularly through collaborations with the US.

However, the contribution of manufacturing value added to GDP remains stagnant at 17% in India, indicating no significant improvement in manufacturing competitiveness. Foreign Direct Investment (FDI), a key driver of technology transfer and manufacturing competitiveness, is declining, with gross FDI flows dropping to just 1% and net FDI falling to 0.6% in the first half of FY23-24 – levels not seen since 2005-06. Rigidities in the business environment, the inverted duty structure (IDS), and India's decision to terminate bilateral treaties are to be blamed for discouraging flow of FDI.

A [study](#) by CUTS International covering 1,464 tariff lines across textiles, electronics, chemicals, and metals reveals how the IDS is hurting competitiveness, with 136 items from textiles, 179 from electronics, 64 from chemicals, and 191 from metals most affected.

Take apparel, for instance. Items priced below USD14 (INR1,000) are subject to a GST of 5%, while those exceeding USD14 are taxed at 12%. For textile manufacturers, there are also significant investments required in value-added services such as marketing, warehouse rentals, logistics, courier services, and other fulfillment costs.

## **The final cut**

However, these additional services are subject to a higher GST rate of 18%, making the products less competitive in the international market. The [India budget 2025](#) has addressed the issue of IDS; for example, the government has increased tariffs on Interactive Flat Panel Displays from 10% to 20%, while reducing tariffs on Open

Cells and related components to 5%. This trend needs to continue, and policymakers must implement further reforms to enhance the competitiveness of the manufacturing sector.

While tariff negotiations are ongoing, India could consider strengthening its position by increasing purchases of US oil and defence equipment. During his last tenure, Trump positioned himself more as a major arms dealer, focusing on selling more weapons and oil. India has contracted for nearly [USD20 billion worth](#) of US-origin defence items since 2008. This trend is likely to continue in a potential Trump 2.0. India, for its part, should focus less on tariffs and more on addressing domestic distortions.

*(The author is professor at Mahindra University. Views expressed are personal).*

*(Graphic by Sadhana Saxena)*