

ECONOMY

Exclusives

# Policy measures that can help small exporters beat Trump tariff

By Nilanjan Banik Sep 11, 2025, 04:00:00 AM IST



Visualisation by Sadhana Saxena via AI

## Synopsis

President **Trump** appears to be softening his stance on India. His social media posts on September 6 and September 9, expressing a more friendly overture, reflect this. He emphasized on renewed US-India trade negotiations, described Prime Minister Modi as his “very good friend,” called India–US ties “special”, and said there’s “nothing to worry” about the India-US relation. Modi warmly responded, saying he “deeply appreciates and fully reciprocates” Trump’s sentiments.

India’s measured response to the recent US trade aggression – in particular the last telephonic conversation between Modi and Trump on June 17 which **commentators believed** led to subsequent imposition of a 25% secondary **tariff**

on India for purchasing Russian oil – stood out as economic pragmatism, especially against what many see as Trump's trademark brinkmanship.

In fact, if recent data is any indication, then India is **not as much impacted** by Trump's tariff as the US, and Trump had to soften his stance on India, sooner. Recent **estimates** by the US Bureau of Economic Analysis suggest that Trump's tariffs are failing to achieve their intended effect, as the trade deficit continues to rise almost every other month despite the tariffs being in place. The US trade deficit was USD78.3 billion in July, up USD19.2 billion from USD59.1 billion in June. The growth rate of US GDP is falling and the US dollar is depreciating at a record level. Contrary to expectations, India delivered robust GDP growth of 7.8% in Q1 FY26 despite Trump's tariffs, marking a five-quarter high.

Indian policymakers did the right thing standing firm without breaking, as premature concessions often lead to further demands rather than sustainable partnerships. In his **bargaining model research**, economist Ariel Rubinstein demonstrated that larger concessions by one party can backfire, leaving them vulnerable to exploitation as their opponent captures a larger share of the surplus. When countries demonstrate they cannot be easily pressured, it often forces larger economies to engage more seriously and fairly in negotiations.

Yet, Trump's unpredictable nature means his stances are far from guaranteed. His recent frustration with Russian defiance has led him to advocate for **100% EU tariffs** on China and India. One thing is clear: Trump's business-oriented approach aims to minimize harm to the US economy from his tariff policies. For instance, he refrained from **imposing harsh measures** on China due to America's need for rare earth materials. Similarly, Trump has yet to impose tariffs on India's pharmaceutical, electronics (including iPhones), and refined petroleum exports – items commonly used in the US that would drive up inflation if subjected to tariffs.

The impact of US tariffs is more likely to fall on labour-intensive sectors like gems and jewelry, textiles, food and agriculture, and footwear – most of which are run by small and micro enterprises. The good news is that the contribution of these sectors, except for gems and jewelry, to US' total imports from India is relatively small. An estimated **USD48.2 billion** out of USD86.5 billion in total merchandise exports from India to the US will be subjected to 50% tariffs, translating to 1.5% of India's GDP.

## Impact of 50% US tariffs on merchandise exports from India

Product	Exports to USA (USD billion, FY2025)	US share in India's Exports (%)	US MFN tariff (%)	New Trump tariff (%)	Total tariff payable (%)	Impact on India
Shrimps	2	32.4	0	50	50	Very High
Petroleum products	4.1	4.3	6.9	0	6.9	Low
Organic chemicals	2.7	13.2	4	50	54	Very High
Pharmaceuticals	9.8	39.8	0	0	0	Low
Carpets	1.2	58.6	2.9	50	52.9	Very High
Apparel; knitted	2.7	34.5	13.9	50	63.9	Very High
Apparel; woven	2.7	32.2	10.3	50	60.3	Very High
Textiles, made up	3	48.4	9	50	59	Very High
Diamonds, gold and products	10	40	2.1	50	52.1	Very High
Steel, Aluminium, Copper	4.7	16.6	1.7	50	51.7	High
Machinery and mechanical appliances	6.7	20	1.3	50	51.3	Very High
Smartphones	10.6	43.9	0	0	0	Low
Vehicles, and parts	2.6	11.4	1	25	26	High
Furniture; bedding, mattresses	1.1	44.8	2.3	50	52.3	Very High
<b>Total Goods exports</b>	<b>86.5</b>	<b>19.8</b>				

Source: Global Trade Research Initiative and DGCI&S, Ministry of Commerce, GoI (2025).

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Therefore, from a policy perspective, there is a necessity to help these small and micro industries operating in the affected sectors. A 50% increase, when combined with existing base rates, fundamentally alters competitive dynamics. These small companies face unique challenges that larger corporations can more easily navigate through their superior access to capital.

Unlike large multinational corporations that can establish manufacturing bases in third countries or absorb temporary losses, smaller exporters lack such flexibility.

For instance, large Indian firms in the textile, and gems and jewelry sectors are already shifting production to countries such as Ethiopia, Oman, Dubai, Bangladesh, and Vietnam — countries with lower exposure to Trump's tariffs — a strategy that cash-strapped smaller firms cannot pursue.

A temporary subsidy programme, coupled with concessional lending arrangements where the government provides interest rate support, would create a crucial bridge during periods of trade uncertainty for the micro and small sectors.

Additionally, an effective strategy to help smaller firms gain access to new geographical markets could be beneficial. India is in the process of signing various free-trade agreements (FTAs), which could provide alternative market access and supply-chain routing options. Intensifying buyer-seller outreach programmes can help maintain relationship continuity even during periods of trade tension. For example, Indian policymakers are in talks with Singapore regarding exports of Indian shrimp, fish, and crustaceans, which are impacted because of US tariffs. India is also in discussions with the UAE to source textiles, and gems and jewelry products.

Another initiative could focus on helping smaller exporters develop and promote their brands effectively. Branding support helps smaller companies establish distinct market identities that can command premium pricing, partially offsetting tariff disadvantages. Export-compliance assistance ensures that technical barriers do not compound tariff-related challenges, while logistics support can reduce overall cost structures. Other government initiative such as rationalisation of GST, faster refund mechanisms, and reduced compliance burdens can significantly improve the overall competitiveness of Indian exports.

Although maintaining diplomatic resolve is a good signal but at the same time it is necessary to provide comprehensive support to affected exporters, especially the small and marginal ones.

*(Graphic by Sadhana Saxena)*