

# Contemporary Issue (US-India Tariff Issue)

## Overview of the Issue

The recent U.S.-India tariff issue involves the U.S. imposing high tariffs on Indian goods, reaching 50% on most items, due to trade imbalances and geopolitical tensions, particularly India's energy imports from Russia. India has not retaliated with its own tariffs but is engaging in diplomatic negotiations for a bilateral trade agreement (BTA).

## Timeline of Key Events

### How floundering India-US talks led to high tariffs?

#### FEBRUARY

- Indian Prime Minister Narendra Modi agrees to work toward a limited trade deal by fall 2025 with the United States and expand the bilateral trade deal to \$500 billion by 2030.
- He also pledged to boost energy purchases from the U.S.

#### MARCH

- Trade Minister Piyush Goyal visits Washington to meet Commerce Secretary Howard Lutnick and U.S. Trade Representative Jamisen Greer.
- Later in March, U.S. officials visit Delhi for talks. India says negotiations are progressing well.

#### APRIL

- During Vice President JD Vance's visit, both sides finalise the terms of reference for bilateral talks.

#### MAY

- Minister of Commerce and Industry Piyush Goyal travels to Washington with lead negotiator Rajesh Agrawal for trade talks.
- India expects a favourable outcome is near.

## JUNE

- U.S. Commerce Secretary Howard Lutnick on June 3 says the U.S. and India are making progress and a deal could be finalised soon.
- Trump says a "big" trade deal with India is coming soon. Indian officials told that trade talks have hit a roadblock over disagreements on import duties largely over farm goods, dashing hopes of a deal ahead of July 9.
- At a rally in the eastern Indian state of Odisha on June 20, Modi says he declined Trump's invitation to Washington.

## JULY

- Delegation returns to New Delhi without a breakthrough.
- Trade Minister Piyush Goyal says on July 4 that India will not do trade deals to meet deadlines and national interest will be "supreme."
- Indian trade delegation travels to Washington again in mid-July for the fifth round of talks, aiming to break the deadlock.
- On July 31, Trump announces to impose 25% tariffs on Indian imports, warns of further 25% additional tariffs for buying Russian oil.

## AUGUST

- On August 7, 25% tariffs on Indian goods come into effect.
- Prime minister Modi says India will not compromise farmers' interest despite "a heavy price".
- New Delhi calls tariffs over Russian oil purchases "unfair", and vows to defend national interests.
- Prime minister Modi's first China visit in seven years is announced. U.S. trade delegation trip to New Delhi scheduled for August 25-29 is cancelled.
- White House adviser Peter Navarro says India's oil buys funds Moscow's war in Ukraine.
- Additional 25% tariff on Indian goods comes into effect on August 27, lifting duties to 50%, among the highest for U.S. trade partners.

## Note Points to understand the Issue

### ➤ What is Tariff?

A tariff is a tax or duty imposed by a government on imported goods, designed to protect domestic industries and generate revenue. For example, if a country imports shoes from another nation, a 10% tariff would add 10% of the shoes' value to the final cost, making the imported shoes more expensive for the buyer. This makes it easier for local producers to compete and can also bring money into the government.

### ➤ What are the Different Types of Tariffs?

#### A. Calculation-Based Tariffs

- **Specific Tariff:** A fixed fee is applied per unit of an imported good, regardless of its value. **Example:** A country imposes a \$500 tariff per tonne of imported steel. The fixed amount makes it simple to calculate but relatively more expensive for lower-priced goods.
- **Ad Valorem Tariff:** This is a percentage-based tax applied to the value of the imported goods. "Ad valorem" is Latin for "according to value". **Example:** A 15% tariff on imported automobiles. A car valued at \$40,000 would incur a \$6,000 tariff (15% of \$40,000).
- **Compound Tariff:** This tariff combines both specific and ad valorem tariffs. **Example:** A country might impose a 5% tariff on the value of textiles plus \$2 per kilogram.

#### B. Purpose-Based Tariffs

- **Protective Tariff:** Imposed to shield domestic industries from foreign competition by making imported goods more expensive, encouraging consumers to buy locally produced alternatives. **Example:** Higher tariffs on imported agricultural products to benefit local farmers.
- **Revenue Tariff:** Primarily designed to generate income for the government rather than to protect local industries. **Example:** Tariffs on luxury goods like imported wines and spirits, which provide a steady source of government income.

### C. Other Types of Tariffs

- **Anti-Dumping Tariff:** Applied to imports priced below their normal value (dumping) to prevent unfair competition for domestic industries.
- **Countervailing Duties:** Tariffs imposed to offset subsidies provided by foreign governments to their exporters, leveling the playing field for domestic producers.
- **Retaliatory Tariff:** Imposed by a country as a response to trade measures or unfair trade practices by another nation.

#### ➤ Why Governments Impose Tariffs?

Governments may impose tariffs for several reasons:

- a) To raise revenues
- b) To protect domestic industries
- c) To protect domestic consumers
- d) To protect national interests

#### ➤ How is a quota different from a tariff?

A tariff is a tax on imported goods, while a quota is a limit on the quantity of a good that can be imported. A tariff affects trade by increasing the price of imports, whereas a quota restricts the volume of imports, regardless of price.

- **Tariff Example:** A country imposes a 10% tariff on imported mobile phones. If a mobile phone costs \$500, an additional \$50 tax is added, bringing the total cost to \$550.
- **Quota Example:** A country sets an import quota of 100,000 tonnes of sugar per year. Once that amount has been imported, no more sugar can be brought into the country for the rest of the year.

#### ➤ What is 'Reciprocal Tariff'?

A reciprocal tariff is a tax a country imposes on imports to match or mirror the tariffs that another country has placed on its exports. This "tit-for-tat" approach aims to create a more balanced and level playing field in international trade. For example, if Country A imposes a 15% tariff on Country B's steel, Country B could respond by imposing a 15% tariff on Country A's cars.

### ➤ What is Tariff War?

A tariff war, or trade war, is an economic conflict in which countries impose and then escalate import taxes (tariffs) and other trade barriers on each other's goods. This cycle of retaliation is typically initiated to protect domestic industries or address perceived unfair trade practices. Historically, tariff wars have often led to negative economic outcomes, including higher consumer prices, disrupted supply chains, and reduced international trade.

### What is the current U.S. tariff rate on Indian goods?

As of late 2025, the U.S. has imposed a total 50% tariff on most goods imported from India. This high tariff is a recent development, stemming from geopolitical tensions, and is among the highest the U.S. has with any trading partner.

#### Breakdown of Tariffs

The 50% rate is a combination of duties implemented in phases during 2025:

- **Baseline Duty:** A 10% baseline tariff was implemented on all imports in April 2025.
- **Reciprocal Tariff:** A 25% "reciprocal" tariff on Indian goods became effective on August 7, 2025, in response to perceived trade barriers and imbalances.
- **Additional Penalty:** An additional 25% tariff was added on August 27, 2025, as a penalty related to India's continued purchase of Russian oil.

### What reason has Trump given for the tariffs?

Donald Trump has given multiple reasons for imposing tariffs on Indian goods, including addressing trade imbalances, countering what he views as unfair trade barriers, and penalizing India for its continued purchase of Russian oil. These tariffs were enforced in 2025, with an initial 25% tariff followed by an additional 25% in August, raising the total to 50% for many goods.

## Rationale behind the tariffs

- **Trade Deficit and Imbalance:** Trump has criticized the bilateral trade relationship with India as being "totally one-sided" and a "disaster," citing a significant goods trade deficit in favour of India. He argues that India "kills us with tariffs" and that his actions are about enforcing reciprocity.
- **Unfair Trade Practices:** The Trump administration views India's agricultural subsidies and sanitary and phytosanitary measures as non-monetary trade barriers that limit US exports.
- **Indian-Russian Relations:** A major factor cited for the additional tariffs is India's continued purchasing of discounted Russian oil and military equipment amid the geopolitical tensions over the Russia-Ukraine war.
- **BRICS Membership:** The US also views India's participation in the BRICS bloc as a challenge to American economic dominance and the US dollar.
- **Encouraging Domestic Production:** A central theme of Trump's tariff policy is the belief that such measures will force companies to return manufacturing to the US, thereby creating jobs and economic growth.

## What was the trade volume between India and USA in previous years?

The total bilateral trade volume (goods and services) between India and the USA has shown consistent growth over the past years, reaching approximately \$212.3 billion in 2024 and a record \$131.84 billion in the Financial Year (FY) 2024-25 (based on Indian data for goods trade). The US has remained India's largest trading partner for four consecutive years.

### Key Highlights of trade volume:

- **Consistent Growth:** Trade between the two nations has shown a steady upward trajectory over the past decade, with significant growth in recent years despite global economic challenges.
- **India's Trade Surplus:** India has consistently maintained a trade surplus with the U.S. in goods, which stood at approximately \$41.18 billion in FY 2024-25. However, the U.S. generally runs a surplus in services trade, and when services are included, some analyses suggest the U.S. has an overall trade surplus.

- **Major Trade Categories:** Key Indian exports to the U.S. include pharmaceuticals, machinery, and precious stones, while imports from the U.S. largely consist of mineral fuels (like crude oil), machinery, and aircraft parts.
- **Future Outlook:** The two countries aim to boost two-way commerce in goods and services to \$500 billion by 2030, indicating strong future projections for trade relations.

## Which Indian sectors are most affected by US tariffs?

The Indian sectors most affected by US tariffs, which are as high as 50%, are primarily labour-intensive industries such as textiles, gems and jewellery, leather goods, and marine products. These tariffs have significantly impacted the competitiveness and export volumes of these sectors.

### Severely Affected Sectors

- **Textiles and Apparel:** This sector is one of the worst hit, as the US is the largest market for Indian textiles. The high tariffs (up to 50%) have led to order cancellations and renegotiated contracts at lower prices, pushing many exporters out of contention with rivals like Vietnam and Bangladesh, which face lower tariffs.
- **Gems and Jewellery:** The gems and jewellery segment has experienced a drastic decline in exports to the US (a significant market), severely impacting production hubs and the numerous MSMEs (Micro, Small, and Medium Enterprises) that dominate this industry.
- **Leather and Footwear:** Similar to textiles, this labour-intensive sector faces a significant impact, with a drop in exports as US buyers look to countries with more favourable tariff regimes.
- **Marine Products:** The seafood industry, particularly shrimp exports, has been heavily affected by duties that can reach over 58% when combined with existing anti-dumping and countervailing duties. This has led to pressure on farming communities and a drop in India's market share, although some exporters are diversifying into new markets.
- **Automobile Components:** While the overall impact on the Indian auto sector is relatively limited due to low export volume to the US, specific auto-part

manufacturers and MSMEs supplying this market are facing pressure on margins due to the 50% tariff.

- **Smartphones and Solar Panels:** Despite some initial growth, smartphone exports saw a sharp decline after the tariffs were implemented. Solar panel exports also contracted significantly, as Indian products became less competitive compared to those from China and Vietnam.

### Which Indian sectors are less affected/exempted from US tariffs?

India's sectors that are less affected or exempted from US tariffs include pharmaceuticals, energy, and electronics. In November 2025, the US also removed tariffs on over 200 food and agricultural products, which provides limited relief to some Indian exporters of items like coffee, tea, and spices. In contrast, industries such as textiles, gems and jewellery, and seafood have been hit hard by the high tariffs.

#### Sectors with Exemptions:

- **Pharmaceuticals:** Exempt from tariffs to safeguard the US supply chain, as the US relies heavily on generic drugs from India.
- **Energy resources:** Exemptions apply to crude oil, natural gas, refined fuels, coal, and electricity.
- **Electronics and semiconductors:** Critical components like integrated circuits, flat-panel displays, smartphones, and computers are exempt.
- **Critical minerals:** A range of critical minerals, including copper, are not subject to the tariffs.

#### Sectors with recent Agricultural Exemptions:

- **Agricultural products:** In November 2025, the US removed tariffs on certain agricultural items that cannot be grown in the US, including coffee, tea, spices, nuts, tropical fruits, and fruit juices.

## What has been India's response to US tariffs?

India's response to the U.S. tariffs has been a measured, multi-pronged strategy focusing on non-retaliation (initially), diplomatic engagement, and building domestic economic resilience through initiatives like "Aatmanirbhar Bharat" and trade diversification.

### Key Highlights on India's Response

- **Non-Retaliatory Stance:** India generally avoided immediate, large-scale retaliatory tariffs to prevent an escalating trade war and a potential negative impact on its own consumers and domestic industries dependent on U.S. imports.
- **Targeted Retaliation (Historical Context):** In an earlier instance (2019), after the U.S. refused to exempt India from steel and aluminium tariffs and withdrew India's GSP (Generalized System of Preferences) benefits, India did impose retaliatory tariffs on 28 American products, including almonds, walnuts, and apples, to an equivalent economic effect. These were later withdrawn in 2023 following a "mutually agreed solution".
- **WTO Engagement:** India has utilized the World Trade Organisation (WTO) framework, filing complaints against the U.S. tariffs (citing violations of the MFN principle and binding commitments) and reserving its right to suspend concessions under the WTO Safeguard Agreement.
- **Diplomatic Channels and Bilateral Trade Agreements (BTA):** India has maintained open channels for dialogue, engaging in ongoing negotiations for a comprehensive Bilateral Trade Agreement (BTA) to address mutual concerns and achieve a "fair, balanced, and mutually beneficial" deal. India has offered concessions in some areas (e.g., lower tariffs on U.S. bourbon and high-end motorcycles) to facilitate talks.
- **Strategic Autonomy:** A core tenet of India's response is the assertion of strategic autonomy. India has maintained that its trade and energy import decisions (such as purchasing Russian oil based on energy security needs) are made in its national interest and should not be subject to external pressure.
- **Domestic Resilience:** The external pressure has been used as a catalyst for internal reforms and initiatives to reduce vulnerability:

- **Aatmanirbhar Bharat (Self-Reliant India):** The tariffs have given renewed momentum to this vision, encouraging domestic manufacturing and consumption ("vocal for local").
- **Support for MSMEs:** The government is exploring measures like interest equalization schemes and targeted credit lines for affected labour-intensive sectors (textiles, gems, jewellery, etc.) to cushion the blow.
- **Market Diversification:** India is actively working to reduce its reliance on the U.S. market by accelerating Free Trade Agreements (FTAs) with other partners like the UK, EU, EFTA, and ASEAN nations, and exploring new markets in Africa and Latin America.

### What are the short-term and long-term economic impacts of US tariffs?

The recent US tariffs of up to 50% on most Indian goods have had significant short-term negative impacts on specific export sectors, while potentially driving India toward long-term strategic economic diversification.

#### Short-Term Economic Impacts

- **Export Decline:** India's exports to the US fell sharply by 37.5% (from \$8.8 billion to \$5.5 billion) between May and September 2025, according to a Global Trade Research Initiative (GTRI) report.
  - **Impact on Key Sectors:** Labor-intensive industries were hit hardest as Indian goods became less price-competitive compared to those from countries like Vietnam (20% tariffs) and China (30% tariffs).
  - **Gems & Jewellery:** Exports of cut and polished diamonds, which account for a significant share of the US market, experienced a decline of around 29.5% in October 2025.
  - **Textiles & Apparel:** This sector saw an annual decline of over 10% in exports, with some exporters reporting up to a 50% decline in turnover.
  - **Marine Products:** Exports of items like shrimp, where India is a major supplier to the US, faced a high tariff rate (up to 58.26%) and subsequent decline.

- **Smartphones/Electronics:** Despite initial growth, smartphone exports dropped dramatically by 58% between May and September 2025.
- **Macroeconomic Pressure:** Initial estimates suggest a potential cut in India's overall GDP growth by 0.2% to 0.5%. The Indian Rupee also weakened, raising concerns about imported inflation.
- **Employment Concerns:** Millions of jobs, especially within the informal and MSME sectors, are at risk due to reduced orders and factory slowdowns.

### Long-Term Economic Impacts and Strategic Response

- **Market Diversification:** Indian exporters are actively exploring and increasing trade with alternative markets, such as China, the UAE, Spain, and Bangladesh, to reduce reliance on the US market.
- **Strengthening Domestic Industry:** The situation provides a catalyst for the "Aatmanirbhar Bharat" (Self-Reliant India) initiative, focusing on strengthening domestic manufacturing capabilities and supply chains to cushion against future external shocks.
- **Policy Reforms:** The Indian government is under pressure to provide immediate relief measures to MSMEs (e.g., easier credit, faster duty remission) and accelerate structural reforms to improve logistics and ease of doing business.
- **Resilience in Exempted Sectors:** Sectors exempted from the tariffs, such as pharmaceuticals, semiconductors, and energy products, have shown resilience and even growth, attracting continued investor interest.
- **Geopolitical Realignment:** The tariffs underscore the shift towards a more fragmented global trade architecture, pushing India to strengthen ties with blocs like BRICS and pursue more bilateral trade deals (e.g., with the EU or Australia) to secure market access.

## Understanding this Issue Further from the Exam Perspective

# World Trade Organization (WTO) & Global Trade

### What is WTO?

The 166-member Geneva-based WTO is a multilateral body which formulates rules for global trade and adjudicates disputes between the countries. Its main objective is to promote smooth, predictable and free flow of goods. Both India and the US have been members since 1995. The nations have signed multiple agreements governing trade in goods, services, and intellectual property. These pacts set rules and guidelines for international trade.

### What are tariff commitments under WTO?

One of the key principles of the WTO is tariff binding, which ensures predictability and stability in global trade. Bound tariffs are the maximum tariff rates that a WTO member commits to under its Schedule of Concessions. These commitments are legally binding, meaning a country cannot impose tariffs above this level without renegotiation. Applied tariffs are the actual tariff rates a country levies on imports. These can be lower than the bound rate but cannot exceed it without violating WTO rules.

### What if a country imposes higher tariffs than the bound duties?

If a member country imposes a tariff higher than its bound commitment, it violates Article II of GATT (General Agreement on Tariffs and Trade) 1994, which says that members must not impose duties or charges exceeding those listed in their schedules and they cannot impose any other duties or charges that are not specified in their schedules. Affected countries can file a complaint with the WTO Dispute Settlement Body (DSB) against high duties.

The first step to resolve the dispute under DSB rules are bilateral consultations. If consultations fail, the complainant country may be allowed to impose retaliatory tariffs or other trade countermeasures after receiving approval from the WTO.

## **Can a WTO member increase its bound tariff rates?**

Yes. But only by negotiating that with affected countries under GATT Article XXVIII (Modification of Schedules), where it must offer compensatory concessions or by invoking emergency provisions like safeguards, or national security exceptions in specific cases. The US under the previous Trump regime, had introduced additional tariffs of 25 per cent on steel and 10 per cent on aluminium products, on grounds of 'national security' under section 232 of its Trade Act. It had cited threats to domestic steel production capacity.

However, the WTO has ruled against this measure in multiple cases. India had also imposed retaliatory duties on 28 American goods. The Global Trade Research Initiative (GTRI) said that the WTO dispute panel stated that national security exceptions cannot be used arbitrarily and must be linked to real security concerns during war or emergencies.

## **What did the US do in response?**

US refused to comply with the WTO ruling, arguing that it has the sovereign right to determine its national security policies. It has also blocked the WTO Appellate Body, preventing an appeal resolution.

## **What is the special and differential treatment under WTO?**

The WTO agreements contain special provisions which give developing countries special rights and allow other members to treat them more favourably. For example, developing countries like India can take more time to reduce its tariffs and export subsidies than more rich nations.

## **Why countries like India have high import duties and developed countries like the US have low tariffs?**

Developing countries like India maintain high import duties primarily to protect domestic industries, generate revenue, and support economic development. These nations often rely on tariffs to shield their emerging sectors from foreign competition, promote self-sufficiency, and manage trade imbalances.

On the other hand, developed countries like the US have lower tariffs because their industries are already globally competitive, and they benefit from open markets that allow their businesses to access foreign consumers with minimal trade barriers.

Historically, according to the GTRI, when the WTO was established in 1995, developed nation agreed to let developing countries retain higher tariffs in exchange for commitments on Trade-Related Aspects of Intellectual Property Rights (TRIPS), services trade liberalization, and agricultural rules that primarily favoured wealthier nations.

### **Can countries increase tariff rates at will?**

According to WTO rules, countries can raise bound tariffs only if they negotiate compensation with affected partners. Alternatively, they may invoke emergency provisions—such as safeguard measures or national security exceptions.

In the past, the Trump administration cited national security under Section 232 of the US Trade Act to impose additional tariffs—25 per cent on steel and 10 per cent on aluminium. The WTO later ruled these measures violated trade rules, stating that national security clauses must not be applied arbitrarily.

Despite the ruling, the US refused to reverse the tariffs, asserting national security as a sovereign matter. Washington has also blocked appointments to the WTO's Appellate Body, effectively paralysing the appeals process. In response, India and several other countries imposed retaliatory tariffs on 28 US products.

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## Practice Questions

1. Consider the following statements regarding the role of the WTO in the context of the India-US tariff issue:

- I. The WTO provides a platform for settling trade disputes between member countries.
- II. A bilateral trade agreement between India and the US must comply with WTO rules, such as the MFN principle and requirements for Free Trade Agreements (FTAs).
- III. India can retaliate with its own tariffs on US goods, provided it does so under the framework of WTO norms and not arbitrarily.

How many of the above statements are correct?

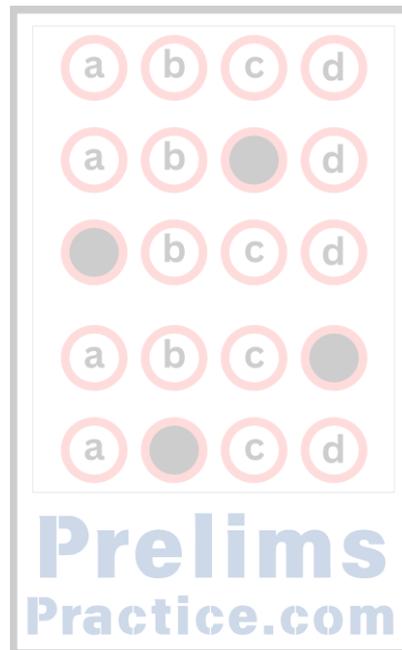
- a) Only one
- b) Only two
- c) All three
- d) None

Answer: c

**Explanation: Statement I is correct:** The WTO provides a platform for settling trade disputes between member countries: The World Trade Organization's Dispute Settlement Body is a key function that helps member countries resolve trade disagreements through a formal process, ensuring that trade rules are followed. **Statement II is correct:** A bilateral trade agreement between India and the US must comply with WTO rules, such as the MFN principle and requirements for Free Trade Agreements (FTAs): All trade agreements between WTO members must adhere to the foundational rules of the organization, including the Most-Favored-Nation (MFN) principle and the requirements for creating Free Trade Agreements (FTAs). **Statement III is correct:** India can retaliate with its own tariffs on US goods, provided it does so under the framework of WTO norms and not arbitrarily: If a country is not complying with WTO rules, the WTO allows for authorized retaliation. This can include imposing tariffs, but this must be done within the rules framework established by the WTO, not on a unilateral or arbitrary basis.

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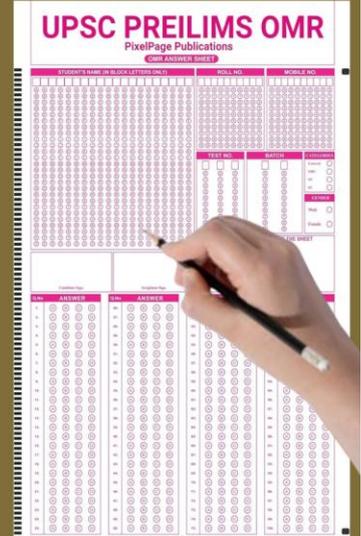
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