

When Tariffs Turn Troubled - The Economic Impact of A 50% U.S. Tariff on India

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Abstract

The imposition of a **50% tariff by the United States on Indian imports in 2025** marks one of the most significant trade disruptions in recent Indo–U.S. economic relations. This policy intervention, implemented through executive action, has reshaped the trajectory of bilateral trade, exposed sectoral vulnerabilities in India, and generated wider macroeconomic uncertainties. The objective of this chapter is to provide a comprehensive examination of the origins, scale, and implications of this tariff shock on the Indian economy, supported by empirical trade statistics, sectoral analysis, and scenario-based projections.

India and the U.S. share a robust trade relationship, with the United States ranking as one of India’s largest export destinations, accounting for **approximately 17–18% of India’s total merchandise exports**. In the fiscal year 2024–25, India’s goods exports to the U.S. were valued at around **US\$86 billion**. The sudden imposition of 50% tariffs jeopardizes this export revenue, threatening significant foreign exchange losses and widening India’s **current account deficit (CAD)**. Using scenario-based modelling, this chapter estimates potential revenue declines of **US\$26–61 billion**, equivalent to **0.6–1.6% of India’s GDP**, depending on the severity of demand contraction.

The chapter further identifies sector-specific vulnerabilities. The **textiles and apparel industry**, employing nearly **45 million workers**, faces steep competition from low-cost producers like Bangladesh and Vietnam, which could displace India’s market share in the U.S. Similarly, the **gems and jewellery sector**, employing millions of skilled workers in Gujarat and Maharashtra, risks significant export declines given the high-value nature of diamond and jewellery trade with the U.S. Although the **pharmaceutical industry** enjoys relative insulation due to essential medicine exemptions, many non-patented exports may still encounter procurement challenges. Additionally, engineering goods and electronics could face cost

escalation, while the **IT and services industry** remain indirectly threatened by parallel U.S. visa restrictions and rising protectionist sentiment.

At the macroeconomic level, the chapter highlights potential ripple effects. Reduced export earnings could pressure the **Indian rupee**, which already witnessed depreciation in 2025 amidst tariff tensions and capital outflows. A weakened currency may aggravate imported inflation, complicating the Reserve Bank of India's monetary stance. Employment dislocation in export-dependent clusters could increase demands for fiscal support, straining public finances further. Moreover, reduced investor confidence may suppress foreign direct investment inflows, undermining India's medium-term growth trajectory.

The analysis also considers the **political economy and strategic dimensions**. The tariffs are not merely economic instruments but also tools of geopolitical leverage, reflecting underlying disagreements in trade, technology, and energy diplomacy. India's potential responses include WTO dispute settlement, bilateral negotiations for sectoral exemptions, and trade diversification towards the EU, GCC, ASEAN, and Africa. Structural strategies such as moving up the value chain in textiles, branding in gems and jewellery, and deepening domestic supply chain efficiency are identified as key resilience-building measures.

In conclusion, this chapter argues that while the immediate impact of the 50% U.S. tariff could trim India's GDP growth by up to **1.1% in the short term**, swift and coordinated policy responses could attenuate losses to below **0.7% of GDP** within two years. The episode underscores the vulnerabilities of overdependence on a single export market and highlights the need for India to diversify trade partners, strengthen domestic competitiveness, and integrate more strategically into global value chains.

1. Introduction — The Shock in Context

On 27 August 2025 the U.S. administration extended a layered set of reciprocal and penalty tariffs on Indian imports that, for a wide range of tariff lines, pushed additional duties up to **50%** (a 25% "reciprocal" tariff announced earlier plus an extra 25% penalty on specified goods). The move followed disagreements over energy sourcing and broader trade frictions between the two countries and was administered through executive action and customs code modifications. These measures are among the steepest unilateral trade instruments applied by the U.S. to a major Asian supplier in recent decades. [The White House+1](#)

The tariff shock arrived at a moment when India had been deepening goods trade links with the U.S.: U.S. goods imports from India were sizable (imports from India to the U.S. were in the order of tens of billions of dollars annually), and the U.S. was among India's top export markets. Analysts immediately warned of disruption to export revenues, supply chains, investment sentiment and exchange-rate stability.

2. Trade and Sectoral Exposure — The numbers that matter

To assess vulnerability, we begin with the headline flows and the sectoral composition of India → U.S. exports.

- **India's exports to the United States (recent):** India exported roughly **US\$77–86 billion** of goods to the United States in recent fiscal reporting and UN Comtrade series (FY24–FY25 window); the U.S. accounted for about **17–18%** of India's merchandise export market in that period.
- **India's nominal GDP baseline (2024):** India's nominal GDP is approximately **US\$3.9–4.0 trillion** (2024 data), which we use as the macro base for impact scenarios.

Major export categories to the U.S. include pharmaceuticals and packaged medicaments, gems & jewellery (including diamonds), textiles and apparel, engineered goods and certain electronics/broadcasting equipment. Several of these — notably textiles & apparel and gems & jewellery — are labour-intensive and concentrated in specific clusters and states (Gujarat, Maharashtra, Tamil Nadu, etc.).

Employment exposure (selected sectors):

- **Textiles & garments:** direct employment estimates cluster around **~45 million** workers (industry & value chain), with apparel exports alone around US\$16 billion in recent years. The sector constitutes a major livelihood source across urban and rural India.
- **Gems & jewellery (including diamond cutting & polishing):** the sector employs **millions** (IBEF and industry reporting place it in several million; diamond polishing clusters alone employ several hundred thousand to over a million workers in Gujarat).
- **Information Technology & services:** while services are not directly covered by goods tariffs, the IT sector is highly integrated with the U.S. market (large share of revenues from U.S. clients) and is vulnerable to parallel policy actions (visas, localization

requirements). The IT-BPM sector employs ~**5–6 million** people and generated export revenues in the low hundreds of billions of USD in recent fiscal years.

3. Direct Macroeconomic Exposure — Scenario Calculations

A straightforward way to gauge scale is to translate plausible export losses into dollar terms and then into percentages of GDP.

Baseline used for calculations

- India → U.S. merchandise exports (FY25, IBEF / COMTRADE range): **US\$86.51 billion** (we use this conservative midpoint as the base year export flow to the U.S.).
- India nominal GDP (2024): **US\$3,912.7 billion** (≈US\$3.91 trillion).

Scenarios (illustrative; assume the extra 50% tariff results in lower export volumes because of loss of competitiveness, partial substitution and demand destruction):

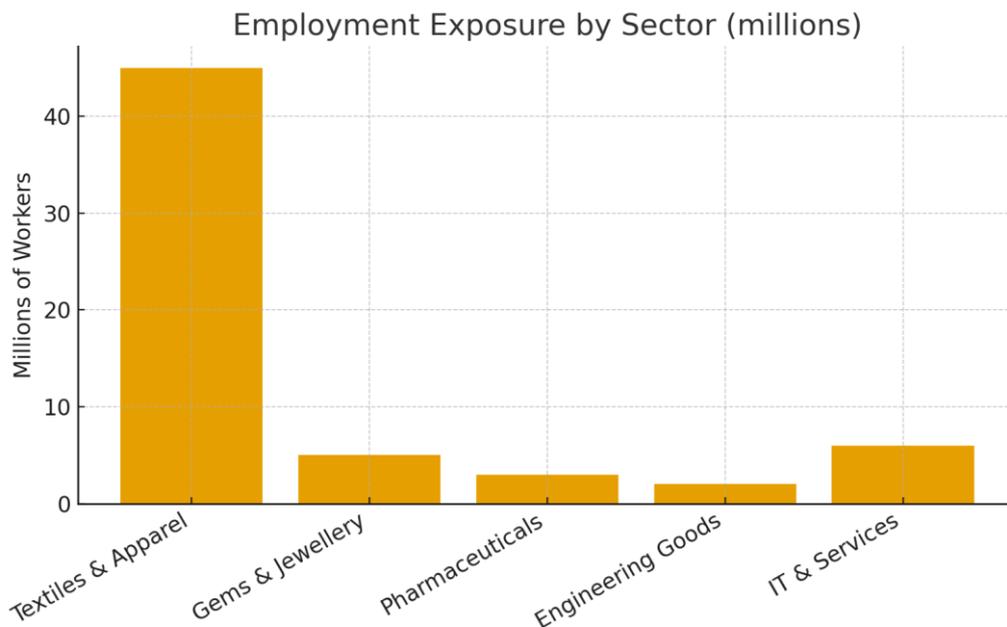
- **Moderate shock — 30% fall in U.S.-bound exports**
 - Export revenue loss = $86.51 \times 0.30 = \text{US\$25.95 billion}$
 - Loss as a share of GDP ≈ **0.66%** of GDP.
- **Severe shock — 50% fall in U.S.-bound exports**
 - Export revenue loss = $86.51 \times 0.50 = \text{US\$43.26 billion}$
 - Loss as a share of GDP ≈ **1.11%** of GDP.
- **Extreme shock — 70% fall in U.S.-bound exports**
 - Export revenue loss = $86.51 \times 0.70 = \text{US\$60.56 billion}$
 - Loss as a share of GDP ≈ **1.55%** of GDP.

These calculations are arithmetic: they show that even a partial collapse in U.S. market access can translate into **tens of billions** of lost export receipts — a material sum relative to India's GDP and to trade flows. (Detailed step-by-step figures and assumptions are shown above; sources for the export base and GDP are cited).

Caveats on the numbers. The direct export revenue loss is not identical to the decline in GDP (exports are part of GDP demand, but second-round effects occur). Some loss can be borne by U.S. consumers or distributors (partial pass-through of tariff), some Indian exporters may find

alternative markets (diversion), and firms may reduce margins rather than volumes. Conversely, lost exports can trigger layoffs, reduced domestic demand, lower investment and financial stress that amplify GDP loss. Hence the scenario band is intentionally broad.

4. Sectoral Implications:



Below we summarise the plausible sectoral fallout, drawing on sector statistics and contemporaneous reporting.

4.1 Textiles & apparel

The textiles and apparel sector is **labour-intensive** and heavily integrated into global value chains. India supplied a notable share of U.S. apparel imports; in 2024 estimates show India supplied roughly 6% of U.S. apparel imports (\approx US\$4–5 billion), and textiles & apparel are among the top goods at risk from higher U.S. import duties. A 50% tariff would raise retail prices in the U.S., reduce order volumes and encourage buyers to shift sourcing to other suppliers (Bangladesh, Vietnam, Turkey, Mexico) or accelerate near-shoring. Given the sector's employment footprint (\approx 45 million direct jobs across the textiles ecosystem), the social impact could be severe in affected states.

4.2 Gems & jewellery (diamonds)

India accounts for the lion's share of global diamond polishing. Diamond exports represent a high-value component of India \rightarrow U.S. shipments. Industry reporting in 2025 pointed to sharp

contractions in polished diamond exports and flagged potential double-digit declines year-on-year under heavy tariffs. The sector's concentration in specific clusters means localized unemployment risk and supply disruption for upstream miners and downstream retailers.

4.3 Pharmaceuticals and chemicals

Pharmaceuticals are among India's large exports to the U.S. Some drug shipments may be insulated if tariffs carve out essential medicines or if regulatory arrangements persist; still, price spikes and procurement shifts could emerge for non-patented items where U.S. buyers can source elsewhere. The risk here is also reputational and contractual rather than purely tariff-based.

4.4 Engineering goods, electronics, and machinery

These sectors are exposed because higher U.S. duties reduce competitiveness. For more complex goods embedded in global value chains, firms may shift final assembly or add U.S.-based value to bypass tariffs — but these responses require time and capital.

4.5 Services and IT linkages

While goods tariffs do not directly tax services, the broader political environment (e.g., visa policy shifts, higher H-1B fees) can reduce Indian IT firms' onsite revenues, alter delivery models and slow deal closures. Reported changes to U.S. visa fees and enforcement in 2025 already compounded pressures on the tech sector. The IT sector's sensitivity to U.S. policy makes it an indirect casualty of trade tensions.

5. Macroeconomic Knock-On Effects

Beyond export revenue lost, the tariff shock can affect India's economy through several channels:

Exchange rate and capital flows. A sudden drop in export receipts and investor risk appetite can pressure the rupee; contemporaneous reporting during the tariff episode already recorded episodic rupee depreciation to record lows and capital outflows totalling billions in 2025. Central bank intervention and foreign-reserve buffers can blunt but not eliminate short-term volatility.

Current account and CAD. Exports are a major component of foreign exchange earnings. A material decline in exports to the U.S. without offsetting improvements in other sectors could widen the current account deficit (CAD) or force adjustment through lower imports — both

have growth and inflation implications. Some agencies in 2025 forecast CAD around 1% of GDP despite tariff effects, largely on account of import compression — but this is contingent on many moving pieces.

Investment, jobs, and fiscal pressure. Export setbacks often lead to lower corporate profits and reduced capex. For labour-intensive sectors, unemployment pressures may increase, prompting fiscal support demands (subsidies, targeted transfers). The government’s ability to respond is constrained by borrowing plans; India’s FY26 borrowing program and deficit targets limited large discretionary cushions without offsetting measures.

Financial sector stress. Exporters with large working-capital exposures may face non-performing asset risks if shocks persist. Smaller exporters and MSMEs are particularly vulnerable to payment disruptions and collateral constraints.

6. Political Economy and Strategic Externalities

A 50% U.S. tariff is not only an economic instrument but also a strategic lever. The immediate political economy outcomes include:

- **Bilateral friction and realignment decisions.** Trade tensions may spill over into defence procurement, technology cooperation and diplomatic coordination. In 2025 diplomatic engagement continued even as tensions persisted — signalling that strategic calculus still matters for both sides.
- **Diversification of trade partners.** India may accelerate diversification: deepening ties with the EU, GCC, ASEAN and regional partners; expanding supply chains with nations that welcome Indian manufacturing; and strengthening intra-BRICS trade. But diversification takes time and complementary policy (FTAs, logistics, standards alignment).

7. Policy Responses — A Pragmatic Playbook

To limit economic damage and strengthen resilience, policy responses fall into four buckets: immediate stabilisers, medium-term repricing and structural shifts, trade diplomacy, and multilateral options.

7.1 Immediate stabilisers

- **Targeted liquidity for exporters and MSMEs:** fast-track working capital lines, extend moratoria for affected exporters, and provide concessional credit to preserve payrolls.
- **Exchange-rate management:** measured FX intervention to avoid disorderly depreciation while allowing gradual adjustment; consider temporary import compression to stabilise reserves. (Central bank actions must be calibrated to avoid fuelling inflation.)

7.2 Medium-term structural responses

- **Market diversification & export promotion:** reorient trade promotion efforts to fast-track entry into EU, Middle East, Africa and Latin American markets; incentivise compliance with buyer standards and logistics efficiency.
- **Move up the value chain:** incentivise product upgrading in textiles (technical textiles), encourage diamond & jewellery value addition (branding, certification) and support pharma in specialized segments.
- **On-shoring and near-shoring within global value chains:** encourage multinational corporations to set up extra processing stages in India that add local value (rules of origin permitting), thereby reducing vulnerability to foreign tariffs.

7.3 Trade diplomacy and legal routes

- **Bilateral negotiation:** pragmatic negotiations to narrow tariff scope or secure exemptions for essential/strategic goods — the 2025 diplomatic meetings pointed to “positive” talks even amid tariffs.
- **WTO & dispute settlement:** where tariffs violate WTO obligations, pursue dispute settlement. This is legally slow but can create pressure and international legitimacy for India’s position.
- **Coalitions of affected suppliers:** coordinate with other countries facing similar measures to build diplomatic pressure or coordinated market responses.

7.4 Domestic supply-side reforms (longer horizon)

- **Ease logistics & trade facilitation:** reduce time-to-export and compliance costs to improve competitiveness even when tariffs bite.
- **Skill & productivity upgrade:** targeted skilling for textile cluster workers, productivity investments in diamond cutting (automation where feasible) and incentives for firms to build flexible, higher-value capacity.

8. Quantitative Policy Impact Simulation — One Plausible Pathway

Suppose policy measures and market diversification recapture **40%** of initial lost U.S. revenue within two years (via new markets, price adjustments, and partial pass-through), and domestic fiscal/credit measures prevent mass layoffs. Under the severe shock scenario (50% immediate fall), the two-year outcome could look like:

1. Year 1: Export loss US\$43.26bn (1.11% GDP) with some contraction in industrial activity and elevated unemployment in specific clusters.
2. Year 2: Recapture of US\$17.30bn (40% of initial loss) through diversification and substitution; residual net loss \approx US\$25.96bn relative to baseline (\approx 0.66% of GDP).
3. Net two-year GDP impact is attenuated below the one-year static shock but there are still concentrated microeconomic hardships and fiscal costs of support.

This stylised simulation shows why rapid policy action and export diversification are essential: they materially reduce cumulative losses.

9. Conclusions and Recommendations

A 50% U.S. tariff on Indian imports is not merely a trade statistic — it is a shock with multilayered economic, social and strategic consequences. Our analysis indicates:

- **Scale:** Direct export revenue losses under plausible scenarios are large (tens of billions USD) and can represent around **0.5–1.6% of GDP** in the short run depending on the depth of volume reductions.
- **Sectoral vulnerability:** Labour-intensive sectors (textiles, gems & jewellery) and clusters are most at risk in terms of employment and social outcomes; high-value and regulated sectors (pharma) face contractual and procurement pressures.

- **Multiplier effects:** The initial revenue shock can amplify via job losses, lower domestic demand and investment, exchange-rate pressure and tighter external financing — making policy responses urgent.

Policy priorities for India:

1. Rapid liquidity and credit support targeted to exporters and MSMEs.
2. Emergency social protection in hit regions and retraining programs for displaced workers.
3. Aggressive market diversification and trade facilitation to replace lost U.S. orders.
4. Combined diplomatic, legal and coalition strategies to pare back tariffs and restore normal market access.
5. Medium-term push for product upgrading and resilient GVC integration.

For international policy actors and publishers reading this chapter, the key lesson is that trade instruments of this size do not produce only bilateral trade effects: they reshape domestic labour markets, regional industrial policies and geopolitical alignments. The remedial responses must therefore be economic, diplomatic and social — executed in parallel, and with rapid sequencing.

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- [10] Reserve Bank of India. (2025). *Annual report 2024–25: Macroeconomic and external sector developments*. <https://rbi.org.in>
- [11] **Appendix — explicit numerical assumptions used in scenario arithmetic**
- [12] Baseline India→U.S. exports (FY25 midpoint used): **US\$86.51 bn**. [India Brand Equity Foundation](#)
- [13] India nominal GDP baseline (2024): **US\$3,912.69 bn**. [World Bank Open Data](#)
- [14] Scenario drops modelled: **30%, 50%, 70%** declines in U.S.-bound volumes (illustrative).
- [15] Computed losses: **US\$25.95 bn, US\$43.26 bn, US\$60.56 bn** respectively; corresponding shares of GDP: **0.66%, 1.11%, 1.55%**.