

## Navigating the Storm: India-US Trade Relations Under the Weight of New Tariffs



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It has been an unusually hot summer with strong headwinds for the bilateral trade tariff between India and the United States. In recent weeks, structured negotiations have given way to a collapsing diplomacy and crass politicization. For years, businesses and policymakers on both sides have enjoyed the virtues of our robust \$180-billion plus trade corridor. Yet, almost overnight, a three decade long nurtured goodwill has plummeted to a reactive diplomatic failure. As a disputes lawyer who has spent years looking at and understanding the delicate equilibrium of trade agreements from a distance, the present times are no less than historic and a tale-telling worthy one.

Let's set the facts out clearly. From August 7th onward, the US President Trump began enforcing a 25% tariff on most Indian exports. As if that weren't enough, an additional penalty of 25% came into force on August 27th. Reactive, borderline prohibitive, and extortive, this additional penalty is reasoned (and publicly communicated) objecting to India's continued energy trade with Russia.

Interestingly, this is not just an indiscriminate hike. While textiles, gems, jewellery, leather, and agricultural products are on the line, India's pharma exports and electronics, including the new iPhones assembled in South India remain unaffected. India supplies many generic medicines consumed in the United States, representing \$8 billion annually<sup>1</sup>. The US appears keen not to cut off supply chains vital to its own consumers, even as it turns the screws elsewhere. This recognizes the practical challenges faced by logistics teams worldwide.

Trump while increasing tariffs on India lowered tariffs on Pakistani imports from 29% to 19% making the effective tariff difference 31% on exports. The business sector in Pakistan has echoed the sentiment that the tariff situation has unexpectedly given Pakistan a window to strengthen trade ties with the United States. Higher tariffs on India have created opportunities for Pakistan to increase its "market share in textiles, food products and plastics." The top-line numbers have caused understandable jitters. Expert analysts warn that, if the tariffs persist, India's GDP growth could drop in the coming year. Textile exporters already operating on thin margins also face grim choices. In boardrooms from Surat to Tirupur, manufacturers wonder whether long-standing contracts with US buyers will hold, or if their clients will turn to Vietnam, Indonesia, or Bangladesh, each facing very different tariff realities. The recent tariff manoeuvre by the United States is nothing short of diabolical: while India's exports are being burdened with a 50% import duty Pakistan now finds itself enjoying a windfall, having its own tariffs cut down by 10%<sup>2</sup>. Pakistani exporters are openly celebrating this opportunity to seize market share in textiles, food products, and plastics, filling the gaps left by sidelined Indian competitors. What truly offends legal and moral sensibilities, is the

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<sup>1</sup> <https://tradingeconomics.com/india/exports/united-states>

<sup>2</sup> <https://www.hindustantimes.com/india-news/trump-tariffs-may-hand-pak-basmati-market-advantage-101754679164321.html>

selective amnesia being displayed. China, which continues to export to the US and remains entirely un-reprimanded on security grounds. Turkey, which is the largest importer of Russian natural gas also escapes with lenient rates. Washington, it seems, applies its standards only when and where it suits its temporary interests. The hypocrisy runs even deeper. The US almost shamelessly promotes Pakistan as a partner for “energy and trade” after publicly branding the country a terrorist haven, the same territory where al-Qaeda kingpin Osama bin Laden was found living comfortably next to a military academy under the noses of Pakistan’s own security apparatus. Not only did President Obama specifically declare Osama’s discovery in Abbottabad a signal moment of Pakistan’s duplicity, but in years since, every administration has openly acknowledged Pakistan’s “complicated” record on terrorism.

Why now, and why India? A question that we must ask, the US points to India’s ongoing oil trade with Russia, India now buys around 38% of its crude from Russian suppliers, prioritizing national energy security in a world of volatile prices. Yet, it is worth noting that India is just one player in a much larger game. China, Turkey, even EU members continue to buy substantial amounts of Russian oil and gas<sup>3</sup>. India’s choices, far from being exceptional, are consistent with global market realities and, more importantly, its sovereign right to secure affordable fuel supplies for 1.4 billion people.

Coming to India’s strategic response, India is standing its ground and that is very heartening as a measured response. Rather than escalating, New Delhi has doubled down on dialogue and negotiation. There’s a concerted push to diversify trade ties as we can clearly witness with the India-UK Free Trade Agreement<sup>4</sup> signed just a month ago, unlocking duty-free access for almost all Indian goods to British markets. This is part of a broader diplomatic philosophy. India’s multi-alignment policy, often misunderstood as fence-sitting, in truth, it is a reflection of maturity. In the 21st century, national interest must sometimes ‘trump’ old alliances. That’s exactly why India continues strong economic engagement with the US, maintains steady energy and defence ties with Russia, and vigorously pursues opportunities with Europe and East Asia.

Legally, the tariffs raise eyebrows. The World Trade Organization’s Most Favoured Nation (MFN) principle is supposed to prevent exactly this kind of selective penalty. While Washington invokes national security, trade lawyers the world over are watching closely, if only to see how far precedent can be stretched before it snaps. India, for its part, could challenge the move at the WTO, though all practitioners know such cases drag on for years. Despite volatile headlines and some nervous selling on Dalal Street, India’s markets have shown resilience. Banks are providing exporters much-needed working capital and flexibility, a nod to the real human and economic impacts behind the statistics.

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<sup>3</sup> July 2025 — *Monthly analysis of Russian fossil fuel exports and sanctions*, available on, <https://energyandcleanair.org/july-2025-monthly-analysis-of-russian-fossil-fuel-exports-and-sanctions/>

<sup>4</sup> <https://www.pib.gov.in/PressNoteDetails.aspx?NotelD=154945&ModuleId=3>

The tariff crisis presents multiple avenues for legal and commercial recalibration that Indian entities must urgently consider. From a lawyer's perspective, the current environment demands proactive restructuring of cross-border arrangements, particularly where US valuations and joint venture agreements are concerned. For Indian companies with existing US joint ventures or M&A arrangements, the tariff environment creates significant valuation disparities that can be legally leveraged. Cross-border joint ventures facing valuation pressures will have to assess the possibility of invoking force majeure / change in law clauses related to unilateral governmental action. The tariff imposition where permissible as an act beyond the control of parties and also being a circumstance beyond the control of either party and therefore qualify as an unforeseen regulatory change, would be of immense help and where it is not provisioned would result in contract renegotiation or non-performance or termination. To put a positive spin on things the exemption pattern reveals strategic opportunities as well. Indian pharmaceutical companies, protected from tariffs due to US healthcare dependencies and electronic devices like smartphones and laptops, can aggressively expand manufacturing capacity and capture market share from non-exempted competitors.

US universities, recognizing both opportunity and necessity, are rapidly establishing Indian campuses as hedge against declining international student revenues. While showing clear signs of discontent with India, the United States seems keen to gain all it can from the education market. Indian families are now increasingly seeking domestic alternatives or third-country options. This demographic shift creates substantial market opportunity for Indian education providers and real estate developers in education hub cities, now is the time for education sector to take strides in our country.

It is also important to remember that nearly 4.2 lakh Indian students are currently pursuing higher education in the United States<sup>5</sup>. These students contribute significantly to the American economy, not only by paying substantial tuition fees but also through their living expenses and daily consumption, which support local businesses and communities. Beyond students, the Indian diaspora has a strong professional footprint in the US with over a hundred Indians serving in senior leadership roles across some of the largest multinational corporations<sup>6</sup>. Their leadership, innovation, and expertise directly contribute to strengthening the American economy and maintaining its competitive edge in the global marketplace. So we can see a dual contribution from Indian students and professionals to the US economy.

If there's a lesson in this crisis, it is that India must continue to hedge its bets. The global trading order is showing cracks as momentary geopolitics trumps economics. Building economic resilience, investing in domestic demand, and securing a place in global supply chains across multiple partners will be as critical as ever.

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<sup>5</sup> [https://www.business-standard.com/immigration/trump-s-25-tariff-on-india-what-it-means-for-students-and-skilled-workers-in-us-125080501298\\_1.html](https://www.business-standard.com/immigration/trump-s-25-tariff-on-india-what-it-means-for-students-and-skilled-workers-in-us-125080501298_1.html)

<sup>6</sup> <https://my-cpe.com/blogs/the-new-rise-in-america-s-economy-with-indian-americans-contributions>

Escalated tariffs do not only affect the big businessman but also the small manufacturer in Surat who's built his life around American buyers, the gem trader in Jaipur watching decades of relationships strain under political pressure, and the thousands of families whose livelihoods hang in the balance of decisions made in distant capitals. Indian businesses will need to rewire decades of established relationships, explore unfamiliar markets, and accept that efficiency must sometimes yield to resilience. Our policymakers will face the delicate task of maintaining strategic partnerships while refusing the comfortable cage of subordination that Washington seems to prefer.

The question isn't whether we'll weather this storm. The question is whether we'll emerge from it stronger, more resilient, and more confident in our capacity to shape our own destiny.