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**High Tariffs, Higher Stakes:**  
**India's Balancing Act**  
**By**  
**Lāsma Kokina**



**3 September 2025**

Lāsma Kokina

## High Tariffs, Higher Stakes: India's Balancing Act

3 September 2025

### Table of Contents

Executive Summary .....	Page 3
1. Tariffs: The Background .....	4
2. India's Reaction .....	4
3. Damage to India's Economy .....	4
4. What Happens Next? .....	5
5. India-US Relations Going Forward .....	5
6. NOTES .....	6

Page | 2



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## High Tariffs, Higher Stakes: India's Balancing Act

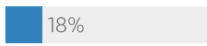
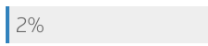
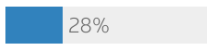
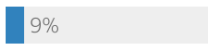
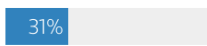
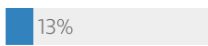

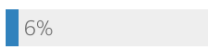
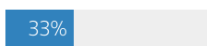
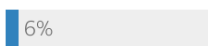
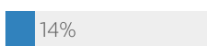
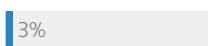
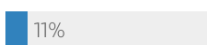
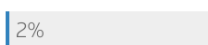
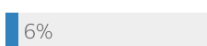
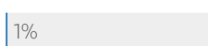
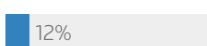
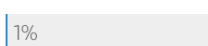
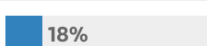
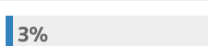
3 September 2025

### Executive Summary

Page | 3

- ✦ Trump's August 2025 order raised tariffs on Indian imports to 50% over Russian oil purchases.
- ✦ India rejected the move as unfair, citing energy security and cost concerns if Russian crude is reduced.
- ✦ Analysts warn India's growth could fall by 0.8 points, and its competitiveness as a manufacturing hub could weaken.
- ✦ Export sectors like garments, seafood, and jewellery face suspended orders and lost US buyers.
- ✦ India has held back from retaliatory tariffs, opting for negotiation and trade diversification.
- ✦ The dispute is pushing India closer to China and Russia through energy ties and multilateral platforms.

### Key Picture: Sectors Affected by US Tariffs on India and The Total Potential Impact on Trade Numbers.

Items	Share of U.S. in India Exports	Share of India in U.S. imports	Tariff Exempt	Impact on Exports	Impact
Capital Goods	 18%	 2%	No	High	\$12 bln
Textiles	 28%	 9%	No	Moderate	\$5 bln
Gems & Jewellery	 31%	 13%	No	Moderate	\$5 bln
Pharmaceuticals	 36%	 6%	Yes	Low	\$0 bln
Smartphones	 33%	 6%	Yes	Low	\$0 bln
Chemicals	 14%	 3%	No	High	\$7 bln
Food & Beverages	 11%	 2%	No	High	\$6 bln
Oil & Gas	 6%	 1%	Yes	Low	\$0 bln
Auto	 12%	 1%	No	High	\$3 bln
Other	N/A	N/A		Moderate	\$7 bln
<b>Total</b>	 <b>18%</b>	 <b>3%</b>		<b>Moderate</b>	<b>\$44 bln</b>

Note: Data as of 2024. The impact is based on 50% tariff on all sectors except pharmaceuticals, smartphones and oil & gas which are currently exempted from tariffs.

Source: [Ratings Direct, S&P Global Ratings | Reuters, Aug. 26, 2025](#)

## 1. Tariffs: The Background

When US President Donald Trump began his second term, relations between the US and India were expected to stay positive, with Prime Minister Modi quickly visiting the US. India initially set aside concerns over Trump's hardline immigration policies and trade friction by pledging to buy more American goods, aiming to double trade to \$500 billion by 2030. However, tensions soon resurfaced after Trump disparaged India's economy on social media and threatened steep tariffs on pharmaceuticals, a sector crucial for India's exports. Strains deepened as India, heavily reliant on Russian crude oil, was caught in the middle of US efforts to pursue peace talks over Ukraine, despite earlier US tolerance of those purchases.<sup>1</sup>

In August, Trump signed an executive order adding a further 25 percent tariff on imports from India as a penalty for purchasing Russian oil. This increase, on top of the existing 25 percent duty, raised India's tariff rate to 50 percent, placing it among the highest import tax categories under Trump. In the order, Trump stated that Russia's ongoing military operations in Ukraine amounted to a "national emergency," making it "necessary and appropriate" to impose higher tariffs on India, one of the largest buyers of Russian petroleum products.<sup>2</sup>

## 2. India's Reaction

India is maintaining its long-standing relationship with Russia, even as Trump's administration prepares to impose punitive tariffs in response to India's imports of Russian oil. Analysts describe the situation as a standoff between India and the US over who will yield first, as India continues importing Russian crude - currently around 1 million barrels per day, down from 2 million earlier in the year. While there is no government mandate to reduce purchases, refiners are proceeding cautiously and exploring alternative suppliers in the US, Africa, Latin America, and the Middle East. However, experts stress it is too soon to determine whether this reflects a lasting shift, with clearer data expected in the coming months.<sup>3</sup>

Nonetheless, India has rejected US tariff threats as unjustified. It has become Russia's largest purchaser of seaborne crude since the Ukraine invasion, importing nearly \$140bn worth, much of it refined for domestic use and re-export. India argues that oil purchases are a sovereign, commercial decision, and warns that shifting away from Russian supplies could raise import costs by \$3–5bn annually. While the US is India's largest trading partner, Russia's role is anchored in decades of defence cooperation, with more than 60% of India's arms sourced from Russia since 2000. Indian officials also highlight the US's inconsistency in not applying similar pressure on other buyers, such as China.<sup>4</sup>

## 3. Damage to India's Economy

Private sector analysts cautioned that a prolonged 50% tariff could significantly burden India's economy and corporate profitability, leading to the sharpest earnings downgrades in Asia, despite some mitigation from proposed domestic tax cuts.<sup>5</sup> Indeed, Capital Economics reports that if US tariffs are fully implemented and sustained, India's economic growth could decline by 0.8 percentage points in both the current and following year. Over the longer term, the damage may be deeper, as elevated tariffs risk undermining India's attractiveness as a global manufacturing hub.<sup>6</sup>

India's export sector is already facing severe strain following Trump's decision to impose 50% tariffs, which experts argue are comparable to an embargo on key goods such as garments, seafood, and jewellery. In Tiruppur, which accounts for a third of India's \$16bn ready-to-wear garment exports to major US retailers, factories have reported suspended orders, stalled expansion plans, and unused capacity as buyers hold back. With tariffs making Indian products far more expensive than those from China, Bangladesh, or Vietnam, business owners warn of growing inventories, frozen production chains, and pressure to retain workers. Although the government has introduced relief measures, such as suspending import duties on raw materials and accelerating trade talks with other countries, analysts caution that US buyers may permanently shift sourcing to lower-cost markets like Mexico, Vietnam, and Bangladesh.<sup>7</sup>

#### 4. What Happens Next?

##### *No reciprocal tariffs yet*

At present, about 20% of India's exports are directed to the US, so reciprocal tariffs could significantly affect the economy. Such measures might reduce India's growth rate to 5.5%, compared with the projected 6.5%.<sup>8</sup> As such, India has not yet responded with reciprocal tariffs on US goods. The strategy remains one of diplomatic negotiation, rather than retaliation, with no formal action having been taken to match or counter US tariffs at this stage.

##### *A new connection to China*

Amid increasing trade frictions with the US, India appears to be edging toward a closer understanding with China. Chinese Foreign Minister Wang Yi's visit to New Delhi in August signalled a pragmatic effort by both sides to stabilise relations. The talks emphasised managing disputes while expanding cooperation in trade, connectivity, and multilateral forums. Against the backdrop of Trump's tariffs on both India and China, along with criticism of India's Russian oil imports, India and China see value in reducing reliance on Western markets. These pressures are pushing the two Asian powers to pursue greater strategic autonomy, strengthen economic cooperation, and coordinate more actively in platforms like BRICS and the Shanghai Cooperation Organization.<sup>9</sup>

Recent meetings between Prime Minister Modi and Chinese leaders have led to confidence-building measures such as reopening trade channels, easing visas, and restoring direct flights, with Modi set to attend the SCO summit in China for the first time in seven years. Analysts argue that Trump's tariffs are nudging India to reduce its adversaries, creating space for economic cooperation with China that could soften the blow of US trade barriers and rebalance India's external vulnerabilities.<sup>10</sup>

At the same time, Russia has signalled its determination to continue supplying discounted crude, coal, LNG, and even expand nuclear cooperation with India. Russia has introduced mechanisms such as rupee-based payments to ease trade and argues that energy imports remain too profitable for India to abandon. The breakdown of US–India trade talks, coupled with these sanctions, has accelerated conversations on a “Greater Eurasian Partnership,” with Russia pushing for a revived trilateral framework linking Russia, India, and China. With Prime Minister Modi preparing to visit China for the first time in seven years and leaders from all three countries set to meet at the Shanghai Cooperation Organization summit, the tariffs appear to be driving India into closer coordination with its Eurasian partners.<sup>11</sup>

#### 5. India–US Relations Going Forward

The outlook for India–US relations hinges on how US policy on Ukraine shapes its stance toward Russia's trade partners. While India has already been working to reduce reliance on Russian oil and defence imports, US pressure is likely to accelerate diversification, though India will avoid appearing to bow to external demands. Despite these tensions, both sides continue to see the relationship as strategically vital – the US views India as a counterweight to China, while India relies on the US cooperation in technology, defence, and energy. The long-term trajectory remains intact, but the frictions have tempered expectations of any “special” relationship, prompting India to emphasise self-reliance and hedge with ties to other partners, even as the US remains its most important partner.<sup>12</sup>

## NOTES

<sup>1</sup> Chietigj Bajpae, “Trump’s tariffs put strain on US–India ties, but relations will endure in the long run”, Chatham House, accessed 26 August 2025, <https://www.chathamhouse.org/2025/08/trumps-tariffs-put-strain-us-india-ties-relations-will-endure-long-run>.

<sup>2</sup> “Trump slaps 50 percent tariff on Indian goods over imports of Russian oil”, AlJazeera, accessed 26 August 2025, <https://www.aljazeera.com/news/2025/8/6/trump-imposes-25-percent-tariff-on-indian-goods-over-russian-oil>.

<sup>3</sup> Andres Schipani and Krishn Kaushik, “India holds firm as Donald Trump’s punitive tariffs loom”, *Financial Times*, accessed 26 August 2025, <https://www.ft.com/content/eb370ef6-1043-4a8a-8779-7a71834f751a>.

<sup>4</sup> Ibid.

<sup>5</sup> Swati Bhat and Manoj Kumar, “Steep US tariffs set to hit Indian exports from Wednesday”, Reuters, accessed 26 August 2025, <https://www.reuters.com/world/india/steep-us-tariffs-set-hit-indian-exports-wednesday-2025-08-26>.

<sup>6</sup> “India says US trade negotiations are still going on as fresh tariffs loom”, Reuters, accessed 26 August 2025, <https://www.reuters.com/world/china/india-says-us-trade-negotiations-are-still-going-fresh-tariffs-loom-2025-08-23>.

<sup>7</sup> Archana Shukla, Roxy Gagdekar, and Garikipati Umakanth, “‘How will I pay workers?’: Indian factories hit hard by Trump’s 50% tariffs”, BBC, accessed 26 August 2025, <https://www.bbc.co.uk/news/articles/c98lr56mznjo>.

<sup>8</sup> Did Modi not pick up four calls from Trump? German newspaper makes this claim amid US tariff threat and Russia oil trade punishment

<sup>9</sup> Abhishek G Bhaya, “China and India seek pragmatic cooperation amid geopolitical shifts”, accessed 26 August 2025, <https://news.cgtn.com/news/2025-08-19/China-and-India-seek-pragmatic-cooperation-amid-geopolitical-shifts-1FXN5lQTVIc/p.html>.

<sup>10</sup> Yashraj Sharma, “Can the new India-China bonhomie reshape trade and hurt the US in Asia?”, AlJazeera, accessed 26 August 2025, <https://www.aljazeera.com/features/2025/8/23/can-the-new-india-china-bonhomie-reshape-trade-and-hurt-the-us-in-asia>.

<sup>11</sup> Krishna N. Das and Aftab Ahmed, “Russia expects India to keep buying its oil and seeks China-India-Russia talks”, Reuters, accessed 26 August 2025, <https://www.reuters.com/world/india/russia-expects-india-keep-buying-its-oil-seeks-china-india-russia-talks-2025-08-20/>.

<sup>12</sup> Chietigj Bajpae, “Trump’s tariffs put strain on US–India ties, but relations will endure in the long run”, Chatham House.