

Economic Diplomacy of India in Present Scenario to Overcome US Tariffs

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Abstract: The friendship between Trump and Modi resembled that of Mao and Jawaharlal Nehru in the past. Indian friendship is based on the leadership of the nation, which supports peace and security for each other's territorial integrity and mutual non-aggression. India and the United States are the largest trading partners. India is the one among those nations that had trade surplus in the US market in FY24 onwards. The trade imbalance created the trade deficit which hampered Trump's temper. In 2017, Trump imposed 25% and 10% tariffs on steel and aluminium in India and now in his second term India confronted 50% tariffs. This paper has key objectives such as, to understand India's economic diplomacy against US trade tariffs and to analyse the US trade diplomacy in the Trump administration. This paper is based on secondary sources of data that include considerable research articles, journal articles, newspaper editorials, and government reports. The US shows its hegemonic power by imposing tariffs on those nations who emerged as a competitor in global politics.

Keywords: Trade tariff, foreign policy, India-US, Indian domestic market, economic diplomacy

Introduction

India is the largest democracy, and the US is the world's largest economy. Both nations are independent and sovereign and are working on their potential economy and political relations. Economic relations are based on the growth of trade and commerce between the nations. According to RAND, bilateral and multilateral economic relations affect global alliances, globalization, and the economic health of nations, and they recommend methods to develop, encourage, and maintain these relations among diverse nations and cultures. The US is imposing heavy trade tariffs not only on India but also on its other allies and rival nations. Recently, India has targeted nations that faced almost 50% trade tariffs that hampered Indian economic growth. But this decision of the US president pushed India closer towards US competitors like China and Russia. The US demands that India stop funding Russia through buying Russian oil. India's national interest has always been superior to a superpower nation's ego. India consistently adheres to the Non-Aligned policy, which safeguards India's foreign policy framework and national interests. India never goes to a single superpower bloc for support. India wanted to be neutral and focused on the national interest as observed in the Cold War period. India was not taking support from a single power bloc or ideology; rather, it took support from everyone and started his journey as a leader of its region by collaborating with third-world countries.

This paper focuses on India's economic diplomacy against US tariffs, through it India take initiatives as changing its economic policies and to analyse the US trade diplomacy in the Trump administration. US trade diplomacy targeted the many nations and India is among of them that face US tariffs and 25% additional tariffs due to purchasing oil from Russia, he wants to get access of Indian food and dairy market smoothly. This paper used secondary data sources for analysing and understanding data and policies on US and Indian diplomacies. US's tariffs hampered India and US economy and trade relations. This paper helps to understand India's diplomatic projection on US tariffs and it analyse the nature of US on its trade diplomacy.

From there, India focused on its energy production and food security dimensions. The nature of the US government towards Indian growth is extremely capitalistic since its independence. The US wants India to compromise with its agricultural and food market, which shows the interest and expansionist tendency of the US in the Indian market. The US wanted to capture the dairy market, which hampered small entrepreneurs and businesses in India. India's economic diplomacy shows a new way of countering the US's hegemonic trade tariffs. The Indian government takes multiple initiatives such as diversification of trade, self-reliance in manufacturing sectors, boosting domestic production, and so on. So there are multiple challenges that should be faced by the Indian economy through the US tariffs on trade.

Background

Historically, the United States has used economic sanctions as a foreign policy tool to punish states that do not meet international norms (Singh et al., 2011). This tool hits the nation's economic growth and political actions. Tariffs and sanctions were used not only as instruments but also as an expression of its broader foreign policy and national interest. The global economic structure, as well as the new world order, which emerged after 2001 that defines the US national interest with regard to economic and political instability in Asian regions. These policy changes show the after effect of the Cold War era that consoles the Asian countries through military influence for fulfilling its national interest. Sanction and tariff policy on India by US is not new, but it's hereditary actions that showed pre- and post-Cold War periods. For India, it could be seen from India's first nuclear test in 1974, when US imposed technological, military, and economic sanctions on India (Singh et al., 2011). During 2nd nuclear test in 1998 US once again imposed economic and technology sanctions on India. After that India knows how to deal with these challenges not only from US side but also from the whole world.

US Economic Policies in Trump's Administration

The United States' economic policy underwent changes after the 2016 presidential election, in which Trump became the president. In 2016's Trump manifesto, the America First policy encouraged Trump to change and make trade policies for the world. According to US government, 72% of Indian workers have taken away the rightful jobs of Americans through the HB-1 visa. Therefore, Trump's political party is promoting the 'American first policy'. The first term of Trump's administration made a directory for trade imbalance. This trade imbalance and deficit were borne by the US government and its citizens. A major challenge facing the United States is its \$500 billion merchandise trade deficit, around half of which is with China, Japan, and Korea also contributing (Noland, 2018). The first term of Trump's presidency has seen an aggressive trade War against China and the imposition of tariffs on India. The US was imposing a 25% tariff on steel and 10% tariff on aluminium on imports into the US market. Due to the 25% tariff on steel, approximately 6.5 million jobs in the US were affected. This is a real-time case example that demonstrates how trade tariffs not only hamper the exporter side but also hurt the importer side. The Trump administration initiated a trade war not only against a single country but against the entire world. He always claimed that China was taking advantage through currency manipulation. However, in his second term as president, he is now targeting the Indian economy with 25% reciprocal and 25% additional tariffs as punishment for purchasing Russian oil. Not only India, but Brazil is also facing 50% trade tariffs. They both are acing the highest trade tariff of 50% by the US government. The United States has a clear vision for its economic policy. It's to eliminate unfair trade practices that hamper the US economy. The US has different economic relations. During Donald Trump's presidency, he demonstrated his business acumen in tackling the global economic structure. Trump wanted a fair balance of trade relations with each country. India is the largest trading partner of the US and one of the nations that had a significant surplus in FY25.

- **Oil exported from the United States** - India being the largest importer of oil in the world, purchases oil to ensure its energy security and economic stability. India purchased oil from various suppliers based on affordability and availability. The US objected to India's purchase of oil from sanctioned nations. Trump claimed that India took advantage of both sides by purchasing Russian oil, refining it, and exporting it to the US market and other nations indirectly. According to Trump, these actions are indirectly funding Russia for the Russian-Ukraine war.

But on the other side, India is a sovereign nation that has a right to take its own decisions. India is a non-aligned nation that never supports war and does not support a single side of bipolarity. Russia built its relations with India by trading in local currency, which helps the Indian economy. External Affairs Minister Dr. S. Jaishankar said China buys more oil from Russia than India, but Trump imposed a 50% tariff on India, which is more than China's tariffs. Not only China but also the US itself purchases oil from Russia which is mentioned by Russian president V. Putin during India visit in December 2025, "As per India's purchases energy resources from Russia so United States itself still buys nuclear fuel from us for its own nuclear power plans. If US rights to buy our fuel, why shouldn't India have the same privilege?"(Putin,2025).

- **Weapon purchase** - Trump urged India to buy weapons from the United States instead of Russia. US defence purchase was stopped after 1965 with India, but Russia continuously exported his defence systems to India. During Indira Gandhi's government the US started technology transfer but with limitations like not using it for nuclear and missile production.

Now India focused on indigenous manufacturing units but for conventional warfare, India made purchases of weapons from various other manufacturers. Russia accounted for 36% of India's arm imports in 2020-24 but it is diversified with other nations as well. India's refusal of US's THAAD and Patriot systems before buying Russian's S-400. So now, Trump wants India to buy more weapons and defence systems from the US (Bedi, 2021).

- **Market Access** - India is one largest populated nation and creates a biggest consumer market to enter in the Indian domestic market especially dairy and agricultural markets, US agriculture exporters wanting to enter the Indian market will have numerous opportunities to help meet this growing demand for imported food and agricultural products (U.S Department of agricultural). India restricted US dairy products for its eligibility criteria. According to the US agriculture ministry, the United States has a relatively small market share in this segment of India's dairy industry behind the European Union and New Zealand.

India's Economic Diplomacy against US Trade

India's foreign policy is following the principle of peace and cooperation between the nations. Before the cold war era, India's economic policies were centred towards socialist perspective which gave a path of closed economy but due to the economic crisis. India opened its economy and created new relations with capitalist and socialist economies after 1991 economic reforms that introduced LPG in Indian economic policy (Yadav & Mishra, 2024). Since the economic reforms introduced in the year 1991, India has rapidly changed its trade relations with the United States (Iqbal et al., 2017). Trade between India and the other nation are the subcategories of economic relations where India's relations with major powers like the US is coming in the frame of India's economic diplomacy. This gave space to Indian products for growing in the US market. India's relation with the US shows the leading power of India in the Asian region. After imposing 50% of tariffs on India by the US, encourage India to counter trade tariffs that balance Indian economic growth and maintain competitiveness in the global market.

Table 1: Indian Exports

Top Indian Exports to US (FY25)		
S. no.	Export Category	Value (in USD Billion)
1.	Electrical machinery & equipment & parts	15.89
2.	Natural/Cultured pearls, stones, & metals	9.97
3.	Pharmaceutical products	9.78
4.	Nuclear reactors, boilers & machinery	6.69
5.	Mineral fuels, mineral oils	4.20
6.	Articles of iron/steel	3.11

Data Source: India Brand Equity Foundation)

India and US are the strategic trading Partners. India exports its major commodities to the US, which creates a trade deficit by 45.8 billion Dollars by 2024 that increases 5.9% from 2023. Major exported items from India to the US include electrical machinery and equipment and parts (US\$ 15.89 billion), natural or cultured pearls, precious or semiprecious stones, pre. metals, clad with pre-metal and articles (US\$ 9.97 billion), pharmaceutical products (US\$ 9.78 billion), nuclear reactors, boilers, machinery and mechanical appliances (US\$ 6.69 billion), mineral fuels, mineral oils and products of their distillation (US\$ 4.20 billion), and articles of iron or steel (US\$ 3.11 billion), among others in FY25 (IBEF,2025).

- **Changing in GST** - India reforms its GST slots to maintaining the growth and manufacturing units. India is reducing the number of tax brackets and simplifying compliance. India reduces the tax slabs that hopes to help the Indian economy and business activity.
- **Boosting Make in India policy** - India implements its diplomatic project 'Make in India' that provides a boost in Indian manufacturing sections. Make in India policy was implemented in September 2015 (pib.gov.in). India's manufacturing section escalating upward that mentioned in World Bank's Doing Business Report that showed India's position improve significantly from 142nd place in 2014 to 63th place in 2020 and the FDIs inflow had significantly increased from US\$ 45.14 billion in 2014-15 to a record high of US\$ 70.95 billion in 2023-24 (ibef., 2024).
- **Diversification of exports** - India's exports grew 6.7% in August 2025 despite Trump's tariffs. Indian exporters find a new road in China, UAE, Netherlands, etc. The Indian government targets almost 50 countries for export diversification to counter US trade tariffs like China, Brazil, UAE etc.
- **Involvement in multilateral trade agreements and regional trade blocs** – India turned its involvement into the regional and multilateral trade frameworks for defining a new global trade order. This is a strategic move for countering or neutralizing the impact of US tariffs and diversifying trade partners.
- **De-dollarisation**- India does not directly support the alternative currency of dollar which can be seen in the BRICS summits where India never supports an alternative currency for cross border trade. India started engaging trade by its local currency with Russia and UAE. India wants to protect its economic and strategic interests by keeping defines of communication open with nations and exploring technical local currency solutions. But it doesn't support de-dollarization as a tool against US trade pressure.
- **Promote domestic production**- India is promoting a high level of capacity in the domestic manufacturing ecosystem through products. PM Modi said "What the nation needs and what can be made in India should be made within India itself," that can build a strong Atmanirbhar bharat. India is building strong local value chains by producing more components inside India rather than importing them from other states and the production cost comes down.

Changing Scenario

India and US are collaborating with each other but due to the changing political leadership US adopted a radical approach towards the Indian economic and trade system. The United States continues to impose tariffs that affect Indian exporters. These measures reflect the US's broader protectionist approach aimed at safeguarding domestic industries and correcting trade imbalances. India's response has been calibrated and strategic rather than confrontational. India has shifted focus from external retaliation to internal capacity building. Through Production-Linked Incentive schemes, tariff rationalisation, and Atmanirbhar Bharat, India aims to reduce vulnerability to external tariff shocks by strengthening domestic manufacturing and export competitiveness. This approach converts tariff pressure into an opportunity for structural transformation.

Conclusion

India is the largest exporter and consumer market for the United States. But the 50% trade tariff hits Indian products like textiles, jewellery, machinery, electronic goods, and pharmaceutical products etc. In August, when 50% tariffs were imposed, India was facing numerous challenges that can be counterbalanced through multilateral trade and economic diplomacy. India is growing its export diversification with the Netherlands, Italy, and the UK, by the demands for engineering goods, marine products and pharmaceuticals and signing free trade agreements with other nations as UK, Oman, and New Zealand in 2025 (Ministry of Commerce and Industry, 2025). These FTAs show the future diplomacy of the Indian economy and open multiple opportunities for India. As Piyush Goyal said "India has become an attractive destination for trade and global investors. Several countries are keen to have trade pacts with India,"(The Hindu, 2025). India wants to vocalize its domestic products in different nations. These actions build pressure on US and US companies which pushes the US government to sign a good trade deal with India to access the Indian market. The US tariff as usual hits the Indian market but India knows how to overcome this and protect the Indian economy and growth. Now, in the alternative trade, India is expected to collaborate with the EU on a trade deal in the last month of 2025. This will create a new market for textiles, leather, and machinery products. In an increasingly globalized international system, India has been solidifying its position as a regional power, hence improving its negotiating leverage in the pursuit of national goals. US's representative Marc Veasey said "India is an important cultural, economic, and strategic partner and these illegal tariffs are a tax on everyday north Texans who are already struggling with affordability at every level" (WION,2025). This statement shows that India is as significant for US as US for India. US is a sovereign nation that has its own national interests which can be fulfilled by the Trump administration. India, as a sovereign republic, has an enforceable right to preserve its national interests, including the safeguarding of domestic businesses and the welfare of its population. In this setting, the mutual acknowledgment of sovereignty and national interest requires ongoing discourse and practical participation. In this situation, the mutual acceptance of sovereignty and national aspirations demands constant conversation and real engagement.

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