

From handshake to hardball in six months

Farm red lines, crude oil politics, and a trade deal deadlock push India-US ties into rougher terrain



IMAGE: SHUTTERSTOCK

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Six months ago, Donald Trump returned to the White House with a familiar promise: To “Make America Great Again”. This time, the agenda came with sharper teeth: Tariffs were once again in focus, pitched as a tool to raise revenue, revive domestic manufacturing, and create jobs.

What stood out early was Trump’s visible camaraderie with Prime Minister Narendra Modi. Just three weeks into Trump’s second term, Modi landed in Washington for a high-profile meeting. The two leaders announced plans to hammer out the first tranche of a bilateral trade agreement by the Fall of 2025, making India the first country to formally enter trade talks with the new administration. In the lead-up, India made goodwill moves — cutting import duties on items like bourbon and scrapping the equalisation levy, both longstanding irritants for Washington.

So when Trump declared April 2 as “Liberation Day” for the US economy and announced country-specific reciprocal tariffs to correct what he called global trade imbalances, Indian officials believed they had a leg up. The logic was simple: India had seized the “first-mover advantage” by initiating trade talks early, and that outreach would help shield it from the worst of US trade action.

That assumption collapsed this week.

In a surprise move, the US administration on July 30 announced a 25 per cent tariff on Indian imports and an unspecified penalty over energy ties with Russia — arguably its harshest stance against any country so far.

On August 4, Washington warned that it would “substantially” raise tariffs on Indian goods over New Delhi’s “massive” purchases of Russian crude oil.

Despite the early diplomatic overtures, India wasn’t spared.

Where it broke down
The tariff blow came after New Delhi and Washington failed to finalise an interim trade deal before the August 1 deadline. Five rounds of intense talks and Trump’s own hints of an “imminent” breakthrough didn’t result in an agreement.

Though the US side pushed hard for a breakthrough, warning of reciprocal tariffs if talks stalled, the deal fell through over unresolved disagreements for contentious issues, mainly on agriculture and automotive sector tariffs.

For India, granting market access in agriculture and dairy has always been a red line. The government has consistently insisted on protecting small farmers, making these sectors politically sensitive and off limits in trade negotiations.

Affiliates of the Sangh Parivar had earlier warned that any trade deal would be dead on arrival if the US continued to insist on access for genetically modified crops. The Bharatiya Kisan Sangh and Swadeshi Jagran Manch argued that concessions in agriculture and dairy would threaten India’s food security.

A government official told *Business Standard* that India wanted to avoid rushing into a deal — unlike Japan, Indonesia, and the European Union (EU), which critics say signed one-sided “quick trade deals”. Moreover, even with a deal, India was unlikely to get tariff relief — the baseline tariff was expected to remain above 10 per cent.

Trade economist Biswajit Dhar said

TRUMP’S TARIFF CANNON HAS FIRED — AND INDIA’S FIRST-MOVER ADVANTAGE IS IN TATTERS. WITH FIVE ROUNDS OF FAILED TALKS AND RISING PRESSURE OVER RUSSIAN OIL, NEW DELHI NOW FACES ITS SHARPEST TRADE TEST YET

The making of a trade chill: A timeline of diplomatic whiplash

2025		
February India, US agree to negotiate the first tranche of bilateral trade pact by Fall	May Round 2 of talks in Washington	June Round 3 held in New Delhi
March USTR visits India; terms of reference finalised	July ■ Negotiations intensify; India submits interim proposal ■ Tariff deadline extended to July 31 ■ Trump imposes 25% tariff on Indian goods effective August 1; announces energy-related penalties	
April ■ Trump announces reciprocal tariffs; implementation delayed to July 8 ■ Baseline 10% tariff imposed on all countries ■ India, US aim for interim trade deal before July 9; Round 1 of talks in Washington	August Trump threatens “substantial” tariffs over India’s “massive” crude oil imports from Russia; India accuses US and EU of unfair targeting	

Good quarter, bad timing: A \$12 billion buffer before the hit

Washington remains India’s biggest customer — and biggest wildcard

	Exports	Imports (\$ billion)	Growth (%)	Balance of trade (\$ billion)
2022-23	78.54	50.86	3.12	27.68
2023-24	77.51	42.19	-1.3	35.32
2024-25	86.51	45.69	11.6	40.82
April-June (2025-26)	25.52	12.86	22.2	12.66

Source: Department of Commerce

that, beyond agriculture, Trump’s interest in Indian exports appeared limited. “The only viable concessions India can offer are in niche agricultural products. That’s essentially all we’ve got on the table,” he said. “India was right to take its time,” Dhar added. “Had we rushed this, it could’ve been a political and economic mess. Farmers would’ve erupted. We’ve staved off a crisis, for now.”

Geopolitics in the mix
India’s membership of Brics and Trump’s dismissal of the group as “anti-US” hasn’t helped. More fuel was added to the fire when Washington accused India of bankrolling Russia’s war in Ukraine by continuing to buy crude oil from Moscow. Trump had earlier threatened 100 per cent tariffs on imports from countries that refused to cut energy ties with Russia, unless a peace deal was brokered.

India, for its part, maintains it has been unfairly singled out, “targeted” by the US and EU for continuing oil trade with Russia after the Ukraine conflict.

What lies ahead
So far, exporters have managed to muddle through the uncertainty, largely because the tariff rollout kept getting delayed. With an eventual trade agreement expected, Indian sellers and US buyers had been splitting the extra costs.

That may no longer hold. Experts warn that the 25 per cent tariff — on top of existing World Trade Organization (WTO)-compliant rates — could create short-term pain for Indian exporters.

According to macroeconomic research firm Capital Economics, the effective US tariff on Indian goods is expected to jump to 18 per cent, from 2.3 per cent a year ago.

Rating agency Icra warned that unless a bilateral trade pact was concluded soon, India’s export outlook for 2025-26 and beyond could take a hit.

“The heavy sectoral dependence on US markets, coupled with tariff asymmetry, poses a serious challenge to India’s trade competitiveness. The evolving geopolitical context, particularly India’s alignment with Russia, will remain a critical watchpoint for both economic and trade decisions going forward,” Icra said in a report, adding that the worst-hit sectors included textile, auto component, tyre, chemical, agrochemical, and cut and polished diamond.

Dhar added that with rival countries enjoying lower tariffs, India risked losing its competitive edge. “If comparative advantage kicks in, companies will start relocating, and that’s a problem,” he said.

On Monday, Goldman Sachs trimmed India’s real gross domestic product (GDP) growth projections by 0.1 and 0.2 percentage points for 2025 and 2026, respectively, bringing them down to 6.5 per cent and 6.4 per cent.

“In our view, some of these tariffs are likely to be negotiated lower over time, and further downside risk to the growth trajectory mainly emanates from the uncertainty channel, where we have previously estimated around 0.3 percentage point drag on real GDP growth from a 1 standard deviation shock to US trade policy uncertainty,” the investment bank said in a report.

Exporters want support
Meanwhile, exporters have urged the government to absorb part of the impact and fast-track the ₹2,250 crore Export Promotion Mission, which has been in limbo since its announcement six months ago.

The government, however, is treading cautiously. Designing a mechanism to share the tariff burden without breaching WTO rules won’t be easy. A direct subsidy model is difficult to implement and could violate global trade norms.

Schemes under the Export Promotion Mission, including interest equalisation, will be rolled out based on “need and priority” once they receive Union Cabinet approval.