

EDITORIAL

DATE : 12th August

U.S. Tariffs on India: Testing Strategic Autonomy and the BRICS Balancing Act

Syllabus Mapping

- ✓ **GS Paper II** – International Relations: Effect of Policies & Politics of Developed Countries; Bilateral Groupings & Agreements
- ✓ **GS Paper III** – Economy: International Trade; WTO; Energy Security
- ✓ **GS Paper IV** – Ethics in International Relations

Why in News?

On 7 August 2025, the U.S. imposed **50% additional tariffs** on several Indian exports, citing **India's continued purchase of Russian crude oil**.

- India and Brazil are now the **highest tariffed countries** by the U.S.
- India is negotiating a **Bilateral Trade Agreement** while criticising **double standards**—the U.S. and EU continue importing Russian energy while targeting India.
- India defended its energy policy as **essential for national security** and driven by **market needs for 1.4 billion people**.



Factors Behind the Tariff – Expanded Analysis

Factor	Detailed Explanation & Linkages
1. Stalled Trade Talks	<ul style="list-style-type: none">India and the U.S. have been negotiating a Bilateral Trade Agreement for years with little progress.Key sticking points: agriculture (especially dairy), medical devices, e-commerce regulation, and data localisation.The U.S. wants India to open sensitive sectors, reduce tariffs, and provide easier market access; India fears loss of farmer livelihoods and MSME competitiveness.Tariffs are being used as negotiating leverage to accelerate talks, similar to how the U.S. used GSP withdrawal in 2019.
2. High Tariffs & Non-Tariff Barriers	<ul style="list-style-type: none">India's average applied tariff is ~15% (WTO 2024 data), among the highest for large economies.U.S. exporters complain about high duties in sectors like pharmaceuticals, electronics, agriculture, and processed foods.Non-tariff barriers cited by the U.S.: complex standards & certifications, regulatory delays, and state procurement preferences.From a WTO lens, these measures create what the U.S. calls "market access imbalance."
3. Russian Oil & Defence Imports	<ul style="list-style-type: none">India increased Russian crude imports to ~35% of total supply after 2022 Ukraine war, taking advantage of steep discounts.U.S. considers this a violation of the "spirit" of its sanctions policy, even though India is not legally bound by them.Similar concern exists over defence purchases from Russia (S-400 system).Tariffs here serve a geopolitical signalling function—pressuring India to align with U.S. foreign policy on Russia.
4. U.S. Trade Deficit with India	<ul style="list-style-type: none">The U.S. had a goods trade deficit of ~\$45 bn with India in 2024–25.Major imports from India: gems & jewellery, pharmaceuticals, textiles, IT services.Reducing trade deficits is a recurring theme in U.S. economic policy (seen with China tariffs during Trump's earlier tenure).Tariffs are framed domestically as protecting U.S. jobs and manufacturing competitiveness.

5. Comparative Pressure	<ul style="list-style-type: none"> - The U.S. has secured favourable trade terms with countries like Japan, Vietnam, Australia, who have agreed to lower tariffs and regulatory barriers. - Vietnam, for example, faces only a 20% U.S. tariff on many goods versus India's 50% after the hike, making its exports more competitive. - This creates relative disadvantage for India in global supply chains, particularly in electronics, garments, and manufacturing. - U.S. negotiators may be using this as a bargaining wedge: "match other partners' market openness or lose market share."
6. Domestic Political Signalling in the U.S.	<ul style="list-style-type: none"> - The 2025 tariff announcement coincides with a politically sensitive period in the U.S., where trade protectionism is a popular theme. - Targeting large economies like India and Brazil helps U.S. leaders signal strength to domestic manufacturing lobbies and trade unions. - The Russia angle also plays well with U.S. voters concerned about national security.
7. Strategic Leverage Beyond Trade	<ul style="list-style-type: none"> - Tariffs are part of a broader economic statecraft strategy—aligning India's foreign policy with U.S. objectives in the Indo-Pacific, energy security, and defence procurement. - By linking trade concessions to strategic alignment, the U.S. blends economic and security diplomacy.

India–U.S. Trade Snapshot

Indicator	Value (2024–25)
Bilateral trade	\$131.84 bn (U.S. largest partner for 4th year)
U.S. share in India's exports	~17%
Agricultural imports from U.S.	\$1.69 bn (+49.1% in H1 2025)
Indian exports to U.S.	\$3.47 bn (+24.1% in H1 2025)
FDI inflows from U.S.	\$4.99 bn (3rd largest source)
Russian crude share in India's imports	~35%
Oil import dependency	88% of total crude demand

Historical Context & Precedents in India–U.S. Trade Tensions

India–U.S. trade relations have seen **recurring friction**, with disputes over market access, tariffs, subsidies, IP rights, and policy autonomy. The 2025 tariff escalation fits a **longstanding pattern** of the U.S. using economic tools to seek concessions.

Major Episodes:

- WTO Poultry Dispute (2007–2015)** – U.S. challenged India's poultry import restrictions; WTO ruled against India.
- Solar Panel Dispute (2013–2016)** – WTO struck down India's domestic content requirements in solar projects.
- GSP Withdrawal (2019)** – Duty-free access revoked for \$5.6 bn worth of exports over dairy, medical device market access issues.
- Steel & Aluminium Tariffs (2018)** – Imposed under Section 232 citing national security; India retaliated on U.S. farm goods.

- Digital Services Tax Dispute (2020)** – U.S. opposed India's 2% levy on e-commerce; interim truce under OECD framework.
- CAATSA Concerns (2018–2022)** – Threat of sanctions over India's purchase of Russian S-400 systems.

Pattern Observed:

- U.S. links trade concessions to strategic objectives.
- India resists in sensitive sectors (agriculture, pharma, defence).
- Tariffs/GSP withdrawal often used as **negotiating leverage**.
- Disputes resolved through WTO or bilateral diplomacy.

Relevance to 2025:

- Mirrors past episodes where trade policy was a **strategic pressure tool**.
- Again, the core tension is India's **policy autonomy** in energy, defence, and agriculture.

INDIA–U.S. TRADE FLASHPOINTS (2007–2025)



WTO Poultry Dispute (2007–2015)

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2007 – 2015



Solar Panel Dispute (2013–2016)

- WTO struck down India's domestic content requirements in solar projects

2019



GSP Withdrawal (2019)

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CAATSA Concerns (2018–2022)

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U.S. TARIFF IMPACT → SECTORAL EFFECTS → INDIA'S RESPONSE → LONG-TERM STRATEGY

U.S. TARIFF IMPACT

– \$37 bn worth of Indian exports affected

SECTORAL EFFECTS

- Electronics
- Pharmaceuticals
- Textiles
- Gems & jewellery

INDIA'S RESPONSE

- Bilateral trade negotiations
- Targeted subsidies to vulnerable sectors
- Diversification of energy sources
- FTAs with new export markets

LONG-TERM STRATEGY

- Value-added manufacturing
- Renewable energy expansion
- BRICS financial collaboration

Implications for India

1. **Economic & Sectoral Impact** – ~\$87 bn exports affected; sectors: electronics, pharma, textiles, gems & jewellery, auto parts.
2. **Growth & Jobs** – GDP forecast cut to 6.5%; risks for labour-intensive industries.
3. **Competitiveness** – Vietnam, Indonesia, Japan gain advantage.
4. **Diplomatic Impact** – Strains ties; reduces chance for preferential access.
5. **Markets** – Stock declines for export-heavy firms; margin pressure.

BRICS: Evolution, Strategic Role & Current Relevance

Origin & Membership

- **Term Coined:** 2001 by economist **Jim O'Neill** of Goldman Sachs as “BRIC” (Brazil, Russia, India, China).
- **Formalised:** First summit in **2009** (Yekaterinburg, Russia); South Africa joined in **2010**, making it BRICS.
- **Expansion:** In 2024, welcomed **Saudi Arabia, UAE, Iran, Egypt, and Ethiopia** — marking its largest expansion, increasing both economic weight and geopolitical influence.

Objectives

- **Reform Global Governance:** Push for greater representation of emerging economies in institutions like the **UNSC, IMF, World Bank**.
- **South-South Cooperation:** Strengthen intra-member trade, investment, and technology collaboration.
- **Alternative Financial Architecture:** Develop mechanisms to reduce dependence on Western-led systems (e.g., SWIFT, USD).

Major Achievements

1. **New Development Bank (NDB):**
 - Established 2014; finances infrastructure and sustainable development projects in member states.
 - Authorised capital: **\$100 billion**.
2. **Contingent Reserve Arrangement (CRA):**
 - \$100 billion pool to help members during balance-of-payment crises.
3. **Local Currency Settlement Efforts:**
 - Moves to settle trade in **yuan, rupee, ruble**, etc., aiming to reduce USD dominance.
4. **BRICS+ Initiative:**
 - Expanded cooperation with other developing economies beyond formal membership.

India's Role

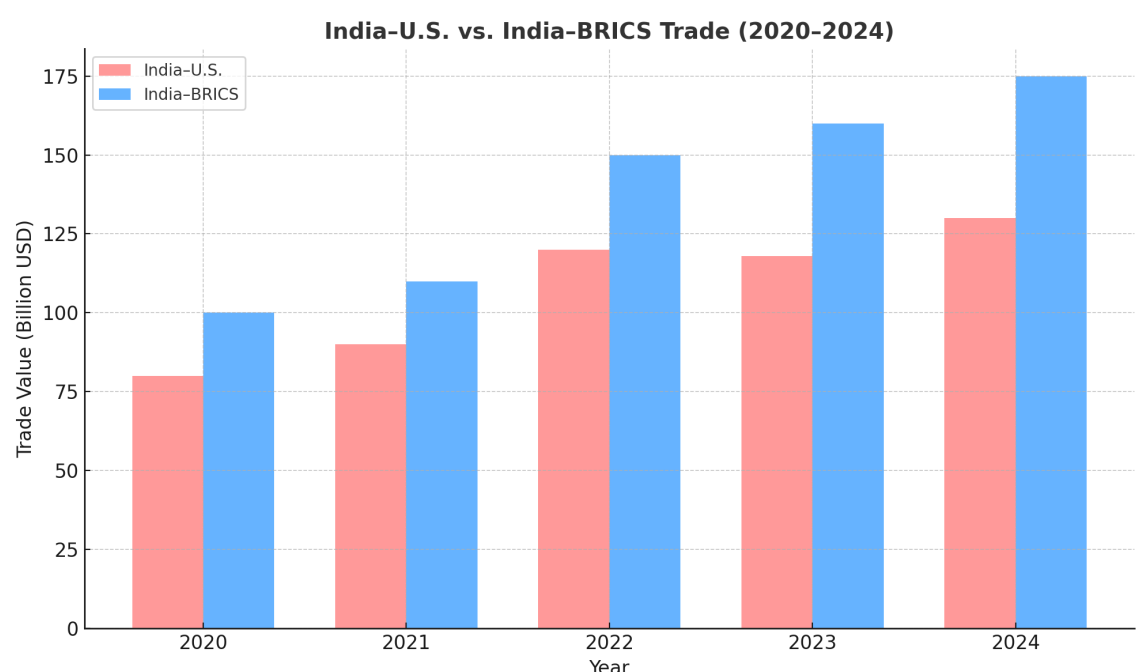
- **Bridge Between Global North & South:** Maintains strong ties with the U.S., EU, and Japan, while also engaging deeply with BRICS and Global South economies.
- **Energy Security:** Uses BRICS networks (Russia, Brazil) for oil and energy imports.
- **Financial Diversification:** Advocates for NDB funding for climate and digital economy projects in India.
- **Trade Diversification:** Brazil and South Africa are emerging agricultural partners, offering alternatives to Western suppliers.

Relevance to the U.S. Tariff Issue

- **Intra-BRICS Trade Potential:** With Brazil also facing high U.S. tariffs, scope for India-Brazil cooperation in agriculture, manufacturing, and digital trade.
- **Reduce Dollar Dependence:** Greater use of local currencies in BRICS trade can insulate against currency volatility and U.S.-linked financial pressure.
- **Geopolitical Leverage:** Coordinated BRICS stance on trade disputes can strengthen bargaining power at WTO and other fora.

Challenges

- **China-India Tensions:** Border disputes and strategic rivalry complicate full economic alignment.
- **Divergent Economic Models:** Members range from state-led economies (China, Russia) to market democracies (India, Brazil), making policy harmonisation difficult.
- **Global Perception:** Western countries see BRICS' currency settlement moves as attempts to undermine the dollar-led system, adding geopolitical friction.



Way Forward

A multi-pronged approach is essential to safeguard India's trade, strategic autonomy, and economic resilience in the face of U.S. tariff pressure.

1. Accelerate Trade Talks – With Safeguards

- Expedite **Bilateral Trade Agreement** negotiations with the U.S. while **protecting sensitive sectors** like **agriculture, dairy, and MSMEs**.
- Use **issue-based bargaining**—link tariff rollback to market access in non-sensitive areas (e.g., digital trade, services).

2. Diversify Export Markets

- Fast-track **Free Trade Agreements (FTAs)** with **EU, EFTA, Gulf Cooperation Council, ASEAN, and Latin America**.
- Expand **South-South cooperation** under BRICS and IBSA to reduce dependency on Western markets.

3. Boost Value-Added Manufacturing

- Shift from low-margin exports to **high-tech, high-value sectors** (e.g., electronics, EVs, medical devices).
- Integrate into **global supply chains** via Make in India 2.0 and PLI schemes.

4. Protect Vulnerable Sectors

- Provide **targeted subsidies, concessional export credit, faster duty refunds** to sectors hit hardest (textiles, gems, pharma, auto components).
- Promote **brand India campaigns** in alternative markets.

5. Diversify Energy Sources & Push Renewables

- Reduce dependence on **Russian crude** by increasing imports from **Middle East, Africa, and Latin America**.
- Scale up **National Green Hydrogen Mission** and solar/wind expansion for long-term energy security.

6. Leverage BRICS for Trade & Finance Resilience

- Use BRICS platforms to **settle trade in local currencies**, reducing exposure to U.S. dollar-based sanctions.
- Expand cooperation in **digital economy, AI, fintech, and sustainable infrastructure finance**.

Conclusion

The **2025 U.S. tariff escalation** is more than a trade dispute — it is a stress test of India's **strategic autonomy, economic resilience, and foreign policy maturity**. Navigating this challenge will require a **calibrated blend of economic diplomacy, market diversification, and institutional leverage** through platforms like **BRICS, WTO, and South-South cooperation**. By coupling **short-term shock absorption** with **long-term structural reforms**, India can not only withstand current pressures but also emerge as a **more self-reliant, globally integrated, and strategically balanced power** in a multipolar world.

UPSC Mains Practice Questions

GS Paper II – International Relations

1. *"The recent U.S. tariff hike on Indian goods is not just a trade dispute but a geopolitical signal."* Examine in light of India's Russian oil imports and BRICS positioning. (250 words)
2. Discuss how **BRICS** can be leveraged by India to counterbalance Western economic coercion, with special reference to trade, finance, and energy security. (250 words)
3. Evaluate the role of **energy security** in shaping India's foreign policy, with special reference to U.S.–India trade tensions over Russian crude. (250 words)

GS Paper III – Economy

4. Analyse the potential impact of U.S. tariff hikes on India's **export competitiveness** and **employment** in key sectors. Suggest a multi-pronged strategy to mitigate the effects. (250 words)
5. *"Trade diversification is the best hedge against tariff wars."* Discuss in the context of India's ongoing FTA negotiations with multiple regions. (250 words)

GS Paper IV – Ethics in International Relations

6. Critically discuss the ethical considerations of using **economic sanctions and tariffs** as tools of foreign policy. Should the ends justify the means? (150 words)

UPSC Prelims Practice Questions

Q1. Consider the following statements about BRICS:

1. BRICS was initially a grouping of Brazil, Russia, India, China, and South Africa, with recent expansion including additional members.
2. BRICS has its own development bank headquartered in Shanghai.
3. BRICS conducts its trade exclusively in local currencies among member states.

Which of the above statements is/are correct?

- a) 1 only
- b) 1 and 2 only
- c) 2 and 3 only
- d) 1, 2 and 3

Q2. In the context of U.S.-India trade relations, which of the following is/are correct?

1. The U.S. is India's largest trading partner as of 2024–25.
2. India's agricultural imports from the U.S. declined in 2025 due to tariffs.
3. U.S. has cited India's Russian oil imports as one of the reasons for imposing higher tariffs.

- a) 1 and 3 only
- b) 2 and 3 only
- c) 1 only
- d) 1, 2 and 3

Q3. Which of the following sectors are most likely to be directly impacted by the recent U.S. tariff hikes on Indian exports?

1. Pharmaceuticals
2. Electronics
3. Gems and Jewellery
4. Automobiles
5. Renewable Energy Components

Select the correct answer using the code given below:

- a) 1, 2 and 3 only
- b) 1, 2, 3 and 4 only
- c) 2, 4 and 5 only
- d) 1, 3, 4 and 5 only

ANSWER KEY

- 1) ☒ Correct Answer: b) 1 and 2 only
- 2) ☒ Correct Answer: a) 1 and 3 only
- 3) ☒ Correct Answer: b) 1, 2, 3 and 4 only