US Trade Wars: Drivers, Global Economic Realignments, and Consequences for India

Priyanka Goel[1], Falak Mittal[2]*

[1] Department of Management, JIMS, New Delhi, India*

[2]Department of Management, JIMS, New Delhi, India

**Priyanka.goel@jimsindia.org, falak.mittal@jimsindia.org*

ABSTRACT. This article speaks about the development and consequences of US-initiated trade wars beyond the Trump era, with specific emphasis on their consequences for India. Although President Donald Trump's hawkish tariffs and nationalism heightening global trade tensions dominated headlines, the causes of these tensions are rooted even deeper in structural economic realignments in global power, technology rivalry, and strategic economic reorientation. This paper analyzes the reasons for such trade disputes, such as overcapacity in industry, currency manipulation, and the race towards technological supremacy. It outlines the world implications of interrupted trade patterns, increased cost of inputs, and inflationary pressures, especially for emerging economies that depend on exports and foreign direct investment.

Additionally, the paper examines how India's economy is realigning their trade policies by diversification, regional integration, and domestic capacity-building investments to insulate against risks and maximize new possibilities in an evolving global order. Finally, it emphasizes the need for emerging economies to increase resilience, adopt innovation, and project a more assertive role in determining the post-globalization economic order. This study discusses significant and critical problems of emerging concern that are of the utmost significance in the current global context of rapid change and interlinkages, emphasizing their pertinence in the contemporary context.

Keywords: *Emerging Economies, Economic Sovereignty, Global Trade, Technological Competition, Regional Cooperation and Foreign Direct Investment*

A. Jain and S. Gupta (eds.), *Proceedings of the International Conference on Policies, Processes and Practices for Transforming Underdeveloped Economies into Developed Economies (PPP-UD 2025)*, Advances in Economics, Business and Management Research 357,
https://doi.org/10.2991/978-94-6463-894-3_10

1. Introduction

Donald J. Trump took over as the 47th president of the United States (US) on 20th January 2025. Throughout his campaign trail, he had openly expressed his thoughts of implementing trade restrictions in the name of Economic Nationalization under his 'America First Policy' to 'make America great again'.

Within his first three months of his second term as the President, he had announced, reconsidered, stopped, and put into effect a flood of tariff measures. His tariff measures in his first round led to what he has referred to as the 'Liberation Day', imposing what he terms as 'reciprocal' tariffs on virtually all US' trading partners. Trump's measures have left the world jittery. These measures have pushed the world economic system, already wounded by geopolitical fragmentation, into even more uncertainty. Although these are early days to authoritatively comment on the ultimate outcomes and implications for the world economic order, in this paper, we try to examine the intentions, steps taken till now, and its potential implications for the world economy, including India. Background in the post-US Civil War period, the United States had embraced a predominantly protectionist tariff system.

2. Background

Tariffs on imports provided a main source of revenue to service the immense war debts incurred.

US tariff law had been modified, however, since the 1940s to encourage freer trade by lowering tariffs. The US congress has the constitutional authority to impose tariffs and regulate trade. But in recent times, Congress has relinquished discretionary powers to the US President in this sense.The latest is the International Emergency Economic Power Act to impose Reciprocal Pricing especially in foreign policy and national security affairs. In total, the US has during the last seventy years more or less adhered to a low-tariff policy, joining multilateral arrangements like the GATT (1947) and subsequently WTO (1995), along with promoting imports from the developing world through its Generalised System of Preferences (GSP) (Casey, 2025).

3. Statement of the problem

Recently, the International Monetary Fund (IMF) reduced its growth forecast, signaling a possible deceleration of world growth and evoking financial stability concerns. The imposition of tariffs by the U.S. has shaken global supply chains, cooled consumer confidence, and triggered negative economic projections for significant economies such as the U.S., China, Europe and India. Consequently, the IMF has warned that the current trade war is likely to trigger a financial crisis, pointing to weaknesses in the American economy particularly against the backdrop of its wide-ranging tariff policies that disproportionately hit it relative to retaliation from trading nations. It emphasizes the dilemma that economies such as India., the effects on multilateral trading relationships, and the need for aggressive economic policies and structural reforms to cope with the changing trade environment. Moreover, it highlights the intricacies of tariffs and their long-run impacts on economic growth, inflation, and international supply chains using secondary sources of data and statistics concerning the article's theme.

4. Objective of the research paper

The overall objective of the article is to analyze the economic impact of U.S.tariffs on global trade dynamics, particularly focusing on the downward revisions in economic growth forecasts by the IMF due to rising financial stability risks and trade tensions. It highlights the challenges faced by economies like India., the implications for multilateral trade relationships, and the necessity for proactive economic strategies and structural reforms to navigate the shifting trade landscape.

Additionally, it underscores the complexity of tariffs and their long-term effects on economic growth, inflation, and global supply chains with the help of secondary sources of information and statistical data related to the theme of the article.

5. Research Methodology

The research design for this article is qualitative in nature, drawing on secondary sources of data to examine the current US-initiated trade wars and their consequences on emerging economies.

The research entails a critical reading of scholarly articles, government documents, trade journals, and statistical information to discover the root causes of trade conflicts, such as the changes in economic might and technological competition. A comparative analysis is employed in the article to determine how various emerging nations are coping with these issues through diversifying trade approaches as well as establishing indigenous capacities. Moreover, the study uses case studies and statistical data to analyze the influence of national security interests in the formation of trade policies.

6. Theme of the Research Paper

The age of U.S. trade wars, especially during Donald Trump's time in office, was a major deviation from the norm of trade liberalization. In table 1, with protectionist strategies, elevated tariffs, and shifts of trade agreements, such measures were directed at fixing perceived trade relationship imbalances, notably with India. But the foundations of such trade disagreements reach far beyond any one administration, fueled by deeper anxieties over national security, intellectual property rights, and global economic competition. Emerging economies, particularly in Asia, Latin America, and Africa, have both been challenged and well-placed in this evolving trade environment. While others experienced impaired supply chains and diminished export demand, others have benefited from trade-route reorientation and investment flows as companies diversify from China and India. As shown in table 2, Global effects of these trade wars are seen in high economic instability, commodity and currency market volatility, and a transformation towards regionalism in trade alliances.

Economically, there is increasing focus on self-sustaining development, electronic commerce, and diversified strategy. For developing economies, it is both a threat and an opportunity to align themselves with new partners, build domestic capacity, and take advantage of their comparative strengths. With the onset of the multipolar economic world, future trade dynamics are most likely to be determined by technology, geopolitics, sustainability, and shared development objectives. Appreciating the ripple effects of American trade wars in such a larger context is important to policymakers, economists, and international investors charting the challenges of an evolving world economy.

Date	**Event**
February 2025	Prime Minister Modi visited Washington for trade negotiations; India offered tariff reductions.
April 2, 2025	U.S. announced a 26% (later adjusted to 25%) reciprocal tariff on Indian goods; baseline 10% tariff imposed.

April 5, 2025	10% baseline tariff effective on all U.S. imports, including from India.
April 9, 2025	Delay of nation-specific tariffs, including India, for 90 days (until July 9).
July 8, 2025	Extension of delay for India-specific tariffs until August 1.
July 30, 2025	President Trump announces a 25% tariff on Indian goods starting August 1, and additional penalty linked to Russian oil imports.
August 1, 2025	25% U.S. tariff on Indian goods becomes effective; key affected sectors include textiles, gems, jewellery, and pharma.
August 6, 2025	Trump announces plan to double tariffs, raising Indian import duties to 50% (taking effect August 27).
August 7, 2025	Executive order confirms 25% tariff; goods arriving after this date face new rates; some exemptions for pharma/electronics.
August 27, 2025	An additional 25% tariff is implemented, bringing total most Indian goods tariffs to 50%.
October 5, 2025	Grace period for goods shipped before August 7 but arriving by October 5; subject to earlier, lower tariffs

Table 1: Chronology of Tariff Wars

Causes	Details
Russian oil imports	India penalized for buying Russian oil, to reduce Russia's oil income and pressure for ceasefire
Trade leverage (agriculture/dairy access)	Tariffs used to pressure India in trade talks for US access to Indian agriculture sector and dairy access
BRICS membership and de-dollarization	US concerned about India supporting alternatives to dollar and anti-US policies
Personal/ego factor	Trump's frustration over India's refusal to acknowledge his role in India-Pakistan ceasefire
Pressure to isolate Russia so that Russia makes a ceasefire with Ukraine	Tariffs/sanctions used to encourage isolation of Russia among major buyers of Russian oil
Double standards in enforcement	Critics analyse that US targets India harder than other Russian oil importers like China ,EU,Turkiye

Table 2: Causes of Tariff War

6.1 Navigating Trade Dynamics: The Evolving US-India Relationship

In 2024, United States-India trade totaled $129.2 billion, with the US shipping goods worth $41.8 billion to India and importing $87.4 billion. In figure 1, this resulted in a US goods trade deficit of $45.7 billion. In 2024, the US replaced China as India's biggest trading partner, with two-way trade totaling $129.2bn, versus $127.7bn for China. But bilateral trade with China is mostly imports-oriented, as India imported more than $110bn from China while exporting less than $15bn. India's trade balance with the US is, however, in its favor. The US plans to increase bilateral trade with India to $500bn by 2030. US exports to India were worth $41.8bn in 2024, with the major items being oils, fuels ($13bn), and precious stones ($5.16bn). India's exports to America totaled $87.4bn, with pearls, electrical machinery, and pharmaceuticals dominating the list.

India exports organic chemicals, textile products, steel, and apparel to the United States. In 2024, the US trade deficit with India is $45.7 billion, in favor of New Delhi. While this figure is relatively small compared to the US's $295 billion trade deficit with China last year, India still ranks 10th among the countries with which the US has the largest trade deficits. India and China accused Trump of cheating the United States by misusing tariffs. He argued it is difficult to sell in India due to the country's stringent trade regulations and obstacles. Trump acknowledged; however, the Indian government is addressing some of his concerns, with some of them agreeing to reduce their tariffs following the US revealing their strategies. While luxury goods such as bourbon and high-end motorbike brands are no longer hit by large tariffs in India, the current tariffs are still much higher than Indian products have to pay in the US. The average tariff rate for the US is 3.3%, while it stands at 17% for India. Under agriculture, where India's tariffs are significantly greater, the difference is most apparent. India imposes a paltry 0.01 percent duty on Indian drug products, while the US has relatively low agricultural tariffs. Indian drug products are taxed at 0.01 percent, while US pharmaceutical exports to India have a tariff of 10.9 percent.

As shown in figure 2, India has signaled its eagerness to US talks on tariffs being removed with its initial tariff cuts on motorbikes and bourbon. Towards the end of the year, the first phase of a trade deal could be wrapped up. Trump's bullying approach is reported to not be appropriate for diplomacy, so it is doubtful that it would work for India. At negotiations, the government of India must be candid and transparent. India has changed from a food-deficit to a food-surplus nation in the last 50 years, becoming a prominent agricultural goods exporter in the process. To facilitate the entry of its agriculture exports into the world's most populous nation, the US has been exerting pressure on India to reduce tariffs. Indian farmers are concerned about the lack of transparency in the trade negotiations and the potential impact on their livelihoods. Indian farmers might have a harder time competing with farmers in the West if the agriculture sector is covered under India's free trade policy, says the farmers' union. Economists caution that the Indian government could run into political, social, and economic problems if it gives in to US pressures. Overall, the trade war has brought opportunities and challenges for India. In the short term, there will be an increase in imports, but in the long term, if India improves its manufacturing capacity, it can decrease its dependence on imports and become a major force in the global supply chain.

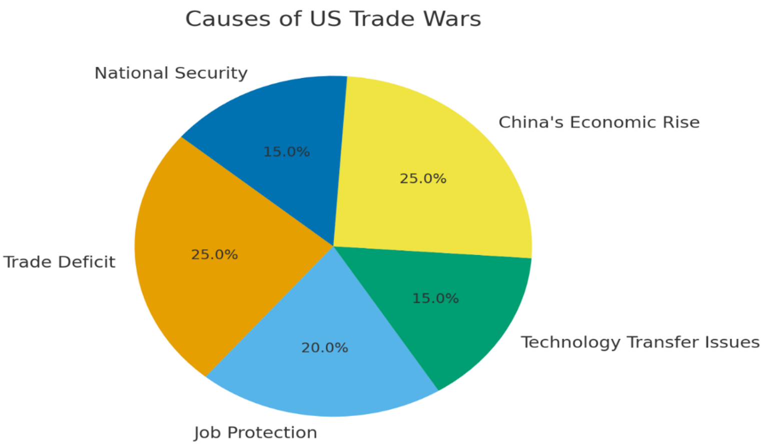

Figure:1 Reasons of Imposition of Tariff

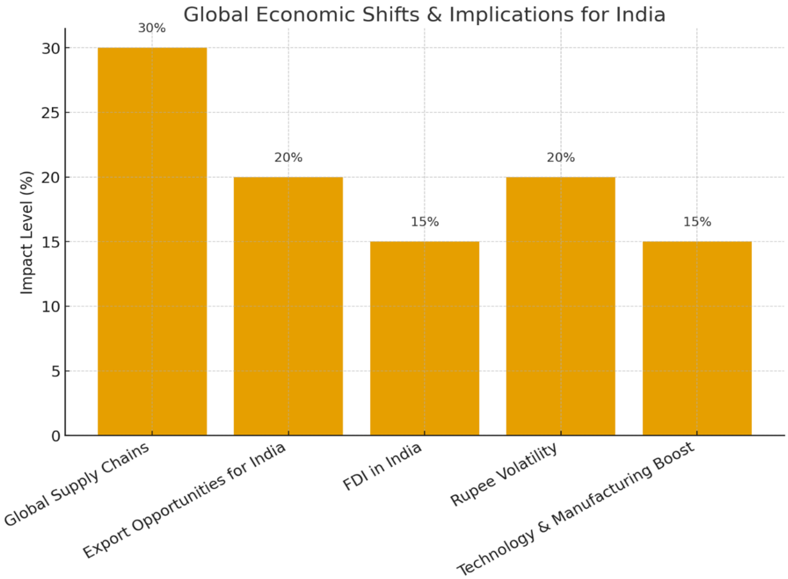

Figure:2 Impacts on India

6.2 Navigating the Impact of the U.S. Tariffs: India's Economic Resilience and Strategic Trade Reforms

Recent trade policies of the Trump administration have greatly affected the economic growth of India, specifically through the imposition of retaliatory tariffs. In early 2025, Trump imposed a 26% tariff on Indian products, and in response, India imposed similar tariffs. The tariffs have affected the flow of trade relations, impacting many sectors of the Indian economy. India estimated that the U.S. tariffs could result in a 0.2 to 0.5 percentage point decline in its GDP growth. Nevertheless, India's growth forecast is still 6.5% for the current year, with long-term aspirations at 7% over the decade. The Reserve Bank of India (RBI) too lowered the GDP growth forecast to 6.5% from 6.7%, citing external and domestic reasons. The most impacted industries are chemicals, metal products, jewellery, automobiles, pharmaceuticals, and food items. India's merchandise exports to the U.S. were worth almost

$74 billion during 2024, with substantial parts played by pearls, gems, and jewellery ($8.5 billion), pharmaceuticals ($8 billion), and petrochemicals ($4 billion). An across-the-board 10% import tariff increase could result in an 11-12% fall in U.S. imports from India and knock off 50 to 60 basis points from India's GDP.

As a counter-move, India has started negotiating trade with the U.S., seeking tariff cuts and bilateral trade liberalization. Tariffs have also been cut on some items like premium motorcycles and bourbon whiskey and higher energy imports and defence buying from the

U.S. are being considered. Moreover, positive monsoon predictions and falling inflation provide some economic respite. Although the Trump trade war is a challenge to India's economic growth, it offers a chance to pursue structural reforms and diversification of economic partnerships. India's proactive efforts and strategic discussions are focused on countering the negative impacts and strengthening long-term economic resilience. In 2020, Donald Trump lambasts India's trade policies, accusing it of having the global highest tariffs for imported products, yet saying Indian products coming into the US market do not enjoy equal barriers.

Although not WTO approved, India's excessive tariff rates are a critical issue, they negatively impact US trade. The impact of the policies on bilateral relations is evidenced by the U.S. government's decision to withdraw India from the Generalized System of Preferences program due to trade disagreements and India's tariff regime.

7. Concluding thoughts

While generating uncertainties, US tariff actions also offer India opportunities to access its under-developed trade potential. Lessons from the initial tariff war during Trump's last presidency are that countries like Vietnam, with greater depth of integration into global value chains, gained from the diversion of trade from China.

Concentration on making connections in regional value chains can promote India's exports by a huge margin. Cutting duties on intermediate goods is a good beginning. If India wants to be a substitute for China in the value chain, welcoming Chinese FDI will not only assist in getting investments but also in getting the required technology and know-how. Considering the significance of the US as a key trading partner, this apparent crisis may become the opportunity India has long been waiting for to reverse its fortunes within the world trading system.

The latest aggressive protectionism move by the Trump administration may not bring about the expected outcomes and might have negative implications for the US as well as the world economy. Every iteration of tariff announcement has led to US investor sentiment turmoil, evidenced through stock market volatility and diminished trust in US Treasury bills. The recent moratorium on 'reciprocal tariffs' has given a temporary breather to US trade partners, but not China. US trade partners are likely to approach the US with trade agreements. The US policy flaw is: one, in perceiving trade deficits as being automatically bad; two, in the assumption that trade deficits arise from the dumping practices of trade partners; and three, in overlooking how manufacturing in the twenty-first century depends on global value chains. On a structural basis, closing the US budget deficit might be a preferable way to fix trade deficits than with tariffs.

The recent events have also led people to question the applicability of global legal structures such as the WTO.

The WTO's dispute settlement mechanism has been left in shambles since Trump's first presidency, with the US blocking the appointment of officials to the body. It remains to be seen what this will ultimately lead to. Could other nations than the US agree to a more open system of trade, or could US negotiations with other nations lead other nations to go out and seek parallel market access advantages so that there is an open trading system with across-the-board lower tariffs? Or could the US' move induce nations to create more trade barriers? The outcome is still uncertain. India is diverting its exports to other countries. India is also attempting to cooperate with regional allies. This can be seen through the recent Indian Prime minister meetings with Brazil's president. Who have reaffirmed a strategic partnership in trade, technology, energy, defense, agriculture, and health. The Free Trade Agreement with the European Free Trade Agreement bloc (Iceland, Liechtenstein, Norway, and Switzerland), effective from October 1, 2025, will enhance the exports of machinery, dairy, watches, and chocolates. Exporters, particularly in the jewelry industry, are investigating re-exporting through nations that possess Free Trade Agreements with the U.S., such as the UAE and Singapore, to escape the worst of the tariffs without losing access to the U.S. market. While others such as pharmaceuticals continue to be exempted. Recently bharatmala,sagarmala and Dedicated Freight Corridors will assist India in staying resilient under such turbulent conditions.

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