



By: **Shashi Tharoor**

US Tariffs are forcing India to change its export model



US President Donald Trump's doubling of tariffs on a wide range of Indian goods, from a steep 25% to a catastrophic 50%, is reshaping India's export economy.

Half of what India sells to the United States – its largest trading partner – is now **prohibitively expensive**, and ordinary Indians are suffering as a result.

Over the last two decades, India's share of **global exports** has inched up, from 1.2% in 2005 to 2.4% in 2023.

That may sound modest, but it represents painstaking efforts by exporters, policymakers, and workers, who recognized that trade plays a critical role in enabling countries to climb the development ladder.

Trump's tariffs now threaten to knock India down a few rungs – or worse.

The figures speak for themselves. In September – the first full month of the tariffs – India's merchandise **trade deficit** widened to a 13-month high of \$32.15 billion, up from \$26.49 billion in August, as exports to the US dropped to \$5.4 billion, from \$6.9 billion the previous month.

Trade deteriorated further in October, with India's goods **exports to the US** falling 9% year on year.

Labor-intensive industries

This is not an abstract macroeconomic story. Bearing the brunt of the tariff shock are India's labor-intensive industries – textiles, apparel, leather, gems and jewelry, footwear, handicrafts, and seafood – which employ tens of millions of workers, including many women and first-generation industrial employees.

While the US administration engages in geopolitical power plays, these workers are worried about feeding their families.

The textiles and apparel sector – one of India's most globally competitive – has been dealt a

particularly heavy blow.

In 2024-25, **India exported** \$10.9 billion worth of such goods to the US, which accounts for a whopping 35% of India's total apparel exports.

By the time the tariffs on India are eased, supply chains will have been reshaped

Given that margins in this industry were already wafer-thin, often in single digits, the sudden surge in tariffs – from 13.9% to a whopping 63.9% – has effectively shut Indian garments out of their largest market.

Producers cannot simply wait out the tariffs. Already, Bangladesh and Vietnam are stepping in to supply garments, denim, and man-made fibers to **US consumers**; Pakistan is gaining ground in denim and fleece; and Cambodia is emerging as a hub for fast-fashion knits.

Nearer to America's shores, Mexico and the CAFTA-DR bloc (comprising five Central American countries, the Dominican Republic, and the US) are offering US retailers shorter lead times and tariff-free access.

By the time the tariffs on India are eased, supply chains will have been reshaped, and India's hard-won market share will be lost.

No sector has been hit harder than jewelry

The US is also the largest market for **Indian carpets** and rugs, accounting for nearly 60% of the sector's exports.

But US tariffs on these products have now skyrocketed from a mere 2.9% to 52.9%, leading US consumers to turn to goods from Turkey and China, as well as Turkish-owned mills in Egypt.

The same goes for **leather**: the US accounted for 21.8% of India's total leather and leather-product exports in 2024-25 – the largest share

for any single importer – but the US market is now effectively closed off to Indian producers.

No sector has been hit harder than jewelry. In September, **exports of gems** and jewelry to the US from Mumbai's Santacruz Electronics Export Processing Zone (SEEPZ) plummeted by 71-76% year on year.

Many exporters saw the tariffs coming and tried to frontload shipments

Behind this statistic are thousands of artisans, polishers, and small-scale entrepreneurs who suddenly have no orders coming in, no incomes, and no livelihoods.

Many exporters saw the tariffs coming and tried to frontload shipments. That is why **India's exports** to the US grew 13% year on year during the first half of the current fiscal year, reaching \$45.8 billion.

But once the full tariff regime took effect, new orders dried up. The stop-gap strategy bought time, but it could not buy resilience.

Diversification strategy

Reducing India's vulnerability to trade shocks, particularly those emanating from the US, demands a carefully planned diversification strategy.

For starters, India should increase its trade linkages within the Global South, taking advantage of growing demand for textiles, leather, and processed foods in Africa, Latin America, and Southeast Asia.

India should also work with neighbors like Bangladesh, Sri Lanka, and Nepal to create integrated regional textile and apparel supply chains, thereby ensuring that it remains part of the global garment story, even if direct exports to the US shrink.

But this is easier said than done, given the

subcontinent's turbulent geopolitics.

India should push harder to operationalize existing free-trade agreements

And India should push harder to operationalize existing free-trade agreements – including with Australia and the United Arab Emirates – thereby gaining access to markets capable of absorbing some of the exports that previously would have gone to the US.

But diversification cannot happen overnight, and for now, there is no substitute for tariff relief from the US.

Internal economic transformation

While a full reversal appears unlikely any time soon, India might be able to secure sector-specific reductions through diplomacy.

Gems and jewelry, for example, could be pitched as a niche sector, in which Indian craftsmanship benefits US consumers.



Trump's tariffs have laid bare the fragility of India's export model, which relies on a handful of markets and a narrow band of relatively low-value-added products

Meanwhile, India must work to advance a more fundamental internal economic

transformation.

India still exports largely low-margin, labor-intensive products. By ascending the value chain to activities like design, branding, and higher-tech production, India can command higher prices and reduce its vulnerability to tariff shocks.

Encouraging domestic consumption, especially by a fast-growing middle class, would also go a long way toward strengthening India's economic resilience.

Trump's tariffs have laid bare the fragility of India's export model, which relies on a handful of markets and a narrow band of relatively low-value-added products.

While this strategy worked when tariffs were low and globalization ascendant, it is poorly suited to our current era of protectionism and supply-chain realignment.

Only by embracing a new approach – which emphasizes diversification, regional cooperation, value addition, and domestic demand – can India emerge from the current upheaval stronger, more resilient, and better equipped to chart its own economic path.

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