



Delhi Policy Group

Advancing India's Rise as a Leading Power



POLICY BRIEF

A Challenge for India's Economic Diplomacy

Author

V.S. Seshadri

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Core 5A, 1st Floor, India Habitat Centre, Lodhi Road, New Delhi- 110003

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Author

Dr. V.S. Seshadri, I.F.S (Retd.), Senior Fellow for Economic Security, Delhi Policy Group

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Cover Images:

US President Donald Trump holds up a chart while speaking during a "Make America Wealthy Again" trade announcement event in the Rose Garden at the White House, in Washington D.C., on April 2, 2025. Source: [X/@realDonaldTrump](#)

US President Donald Trump announced that imports from India will attract 25% tariffs from August 1, on July 30, 2025. Source: [White House](#)

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A Challenge for India's Economic Diplomacy

by

V.S. Seshadri

India's economic diplomacy is facing a severe test. That is, if President Trump's reciprocal tariffs of 25% on India were imposed for purely trade and economic reasons. Many commentators have suggested that this move has resulted from other considerations. That may well be true, considering that Trump has also targeted India with a 25% additional tariff, and not on other buyers of Russian oil, to demonstrate to Russia the pain he can inflict if Moscow does not cooperate in bringing the Ukraine conflict to a quick resolution.

Assuming, however, that the 'reciprocal tariff' on India was imposed for trade related reasons, this brief explores a solution based approach since the stakes are quite high for both countries, but particularly for India, since the US is its largest export market. Over the past two decades, bilateral trade has steadily expanded, despite many challenges. It will indeed be a pity if this rising trade graph is allowed to slide and enter a period of uncertainty. Livelihoods of workers, particularly from MSMEs and the farm sector, could be at risk.

What are President Trump's objectives? By declaring a national economic emergency and arming himself with powers to reset tariffs vis-a-vis various countries, he is asking them to contribute towards helping America reduce its huge trade deficit, enhance domestic manufacturing and de-risk its dependence in certain strategic sectors. He is clearly leveraging access to the massive US market by employing tariffs as a tool, disregarding all WTO rules, signalling his preference for an era of rebalanced and managed trade.

Looking at the trade deals the Trump administration has so far struck, the concessions/contributions that US trade partners have made include a mix of one or more of the following: a) reduction in tariff and non-tariff barriers for imports from the US or for US digital services; b) accepting products, including vehicles, as per US standards; c) commitments to make substantial purchases of US energy, farm produce, defence equipment or other products over the next few years; d) substantial investment commitments over the coming years in US manufacturing; and e) providing access to US companies in their markets for natural resource or other exploration/exploitation.

In return, what the US is committing to is only to reduce the earlier elevated 'reciprocal tariffs' by some percentage points, in effect creating three tariff categories:

1. A 'reciprocal tariff' of 10% for countries with which US has a trade surplus;
2. A 'reciprocal tariff' of 15-20% for countries with which US has a trade deficit but with which US has arrived at some kind of a deal; and
3. A 'reciprocal tariff' of 15% but mostly higher than 20% for countries with which no deal could yet be reached and with which US has a trade deficit. India presently figures in this category.

It must be added that these 'reciprocal tariffs' are in addition to normal MFN tariffs that were in force for each product. Only FTA partners are exempt from these MFN tariffs, depending on the respective FTA schedule. That said, the EU (and apparently also Japan, although this is not yet confirmed), which is not a US FTA partner, was able to negotiate a tariff ceiling of 15% or applicable MFN tariff, whichever is greater, for each product. This could also be the best tariff status that India could negotiate for in the present circumstances.

Even before the initial announcement of 'reciprocal tariffs' by the US on April 2, India and the US had agreed, during PM Modi's visit on February 13, to negotiate a wide-ranging Bilateral Trade Agreement (BTA) by the fall of 2025 towards reducing tariff and non-tariff barriers and deepening supply chain integration. Both sides had also pledged in their joint statement to increase US exports of manufactured goods and India's exports of labour intensive goods. The two sides were to also work together to increase trade in agricultural products. And the two sides had packaged their aspirations as 'COMPACT' (catalysing opportunities for military partnership, accelerating commerce and industry), and the expansion of bilateral trade to exceed USD 500 bn by 2030.

So far, five rounds of negotiations have been held on the BTA, the last one held between July 14-17, 2025. There were statements from both sides that progress was being steadily made. There were also statements from Trump himself that a deal could be announced soon. So it is not clear what really happened that made him eventually decide otherwise, and announce a tariff of 25% for India on July 30.

Several questions arise. Did he change his mind and raise his expectations after what many saw as one-sided deals that the US was able to arrive at with some other countries in July? Were US demands from India on agriculture and dairy the main bones of contention? Was the US expecting far more purchase commitments on certain

energy or other products? Was it a combination of all these factors? Or was the Indian side too narrowly focussed on only the tariff aspect and not on the overall package that Trump was expecting?

While there are no clear answers to any of these questions, the key issue presently should be whether India should make another effort to see whether the two sides can still come to a mutually beneficial deal? This is particularly so considering that a combined 50% tariff on much of India's exports amounts to a virtual trade embargo.

President Trump has been quoted as saying that there will be no trade talks with India until the 'tariff issue is resolved'. It is not clear how the tariff issue can be resolved without further talks. Or is Trump indicating that a 'deal' has to precede talks? From the manner in which certain other deals were finalised, this could well be his thought process.

If so, how should we go about it? The government might consider nominating two senior economic ministers for holding such a discussion with their US counterparts on elements of a possible deal, if there are indications that such a move will find receptivity on the other side. The main message from the ministers could be that India will try and do what it can to bridge the bilateral trade imbalance, even as India's own global goods trade imbalance is no less wide.

If such a proposal gains acceptance, the government will need to quickly discuss both inter-ministerially, and with industry representatives and farm interests, how we can look at US objectives and our own vision for 2030 in a win-win manner, without overstepping our regulatory red lines or other sensitivities. The following are possible ideas that need closer exploration:

1. The government may have already indicated, during the five rounds of talks, our readiness to significantly liberalise our industrial tariffs in the BTA, just as we may have done for a few other FTA partners. Where there are sensitive items, such as in autos, TRQs could be an answer.
2. The February 13 bilateral joint statement did talk of both sides working together to increase their trade in agricultural products. We also need to recognise that while our exports of agricultural products to the US were USD 5.9 bn in 2024-25 (which included around US\$ 2 bn of shrimps and around US\$ 400 mn of rice), our imports were only USD 2.03 bn. Some additional effort could be made to reduce this gap.

3. Even as we have concerns on the GMO front, and this needs to be maintained as has been done by the EU, could we make progress in other areas on which trade already takes place? For example, if we are envisioning a significant increase in our textile and garment exports, imports of cotton from the US that is favoured by the exporting community could provide mutual gains. With USD 200 m imports from the US already taking place annually of cotton, could we increase this significantly by 2030?
4. Another agricultural item currently being imported by India from global sources is pulses. Our imports from the US are not significant, although they went up sharply to USD 90 m in 2024-25. Could we see this rising during the next few years?
5. On dairy products, if some US units are able to certify that they do not use animal residues in their cattle feed, could we look at allowing limited TRQs for one or two products from such units? To ensure that such imports do not affect domestic prices, could we route them through agencies like Mother Dairy and Amul which will sell them at domestic prices and use the profits for reform of the dairy sector?
6. While importing soya carries with it the GM issue, could we look at our needs of soyabean oil as we move towards 2030? In 2024-25, India imported USD 125 m of soyabean oil from the US. Could we see this rising in the coming years? Would some Indian corporates consider investments in soya crushing in the US for export to India?
7. Already, for the last couple of years, the imports of almonds and other nuts from the US to India are doing well and exceeded USD 1 bn in 2024-25. How do we see this rising, with changes in our consumer pattern?
8. Another item whose imports are rising is ethanol, an item of particular interest to the US. In 2024-25, these accounted for USD 436 m, marking a 64% rise from the previous year.
9. All of these foregoing items could together comprise a significant farm products component.
10. On industrial products, pharmaceuticals form one of our largest export item to the US, exceeding USD 9bn in 2024-25. Several of our pharma companies have also invested in the US in manufacturing plants. At a time when the Trump administration is examining how to increase domestic production and reduce dependence in pharma imports, can our companies think of ways that can be

projected as a form of de-risking and enhancing supply chain resilience that benefit both countries?

11. As mentioned in the February 13 joint statement, Indian companies have also made investments in the aluminium and steel sectors. In the light of Section 232 duties on these products in the US, and with no country getting exemption from the 50% duties, are these companies looking at expanding their investments in the US?
12. As for purchase commitments, the government may have already conveyed our likely purchases in the coming years and those in the pipeline in the energy, defense, civilian aircraft and possibly also on nuclear power plants. Oil purchases from the US have already multiplied three times in the first two months of this financial year.
13. It is such packaging that has made commitments from other US partners look sizeable. What could our numbers look like? Notwithstanding Trump's unfortunate comments about India's 'dead economy', the US should realise that over the longer run, a large emerging economy like India with rising consumption would be a far more important market to nurture and covet than other smaller export oriented economies which may have given US open access but which may amount to only marginal increases in US exports.
14. India has already withdrawn the 6% equalisation levy on online advertising with digital platforms in this year's budget.

The foregoing is only a sample listing of areas that could contribute towards outcomes Trump may be looking for; there could be others. But it is urgent and important that an effort is made to convey to the Trump administration our keen interest in helping achieve their objectives, within our limitations and interests.

In return, we will have to make it clear that just as we have given them the best possible deal in the Indian market, they too should reciprocate by giving India the lowest tariffs possible for countries having a trade surplus, something the US has given to the EU, including on autos. This will also ensure that the labour intensive products, about which there is a clear reference in the joint statement of February 13, and which normally are faced with peak MFN tariffs, at times beyond 15%, do not have to be subjected to both reciprocal and MFN tariffs.

Moreover, it needs to be made clear that on trade imbalances, India is in a similar predicament as the US, with its goods exports financing only 61% of its imports in

2024-25, just as it was only 63% in the case of the US in 2024. This also explains India's emphasis on expanding its own manufacturing sector which, hopefully, will also receive US support.

In sum, our attempt at a fresh economic diplomacy approach should envisage a visionary but realistic deal that in essence reflects what was stated at the February summit by PM Modi - MAGA + MIGA = MEGA partnership for mutual prosperity.

This brief has not commented on the 25% additional tariff on account of the Russian oil purchases issue. It is to be hoped that if we can clear the atmospherics with a mutually beneficial deal on 'reciprocal tariffs', there will be impetus for removal of the other levy. Hopefully, the ongoing talks on the Ukraine conflict may also help in the process. Meanwhile, at least for now, a further pause on this levy beyond August 27, should be sought.

There is some uncertainty about what might happen if the US courts, in ongoing cases questioning the President's authority, rule against these 'reciprocal tariffs'. There are also questions about the economic impact from these tariffs, and whether they will get reversed if there is a serious economic downturn. These are certainly possibilities that cannot be ruled out. Will the Trump administration then get back to the pre-April 2 situation while pocketing the concessions/commitments made by different partners? While these are all in the realm of possibilities, the decision to move towards a BTA, which preceded the April 2 'reciprocal tariff' pronouncements, should still remain a priority, which can be suitably reconfigured in the light of any new developments.



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