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Managing Macroeconomic Stability Amid Trade Hostility: India's Response to U.S. Tariff Actions

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Abstract
This study examines how India strategically managed its economy amid the resurgence of U.S. protectionism and tariff hostilities under the "America First" trade policy. Drawing on a comprehensive desk-based analysis of trade statistics, policy documents, and scholarly literature, the paper explores India's multidimensional responseranging from diplomatic negotiations and retaliatory tariffs to macroeconomic stabilization and structural reforms. Key initiatives such as the Make in India and Production-Linked Incentive (PLI) schemes, tax rationalization, rupee trade settlements, and energy diversification underscore India's resilience and adaptability. The study finds that despite multiple external shocksincluding global supply disruptions, oil price volatility, and currency depreciationIndia maintained macroeconomic stability while strengthening its global trade partnerships. The findings have broader implications for emerging economies navigating trade conflicts in an era of renewed protectionism, suggesting the importance of diversification, innovation, and calibrated policy interventions for sustaining growth and autonomy.

Keywords: India-U.S. Trade, Protectionism, Tariff Policy, Economic Resilience, Global Trade Strategy
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I. INTRODUCTION

India's economic resilience under Prime Minister Narendra Modi has been repeatedly tested by a series of global shockseach distinct in nature but cumulative in their impact. Among the most significant has been the resurgence of trade protectionism under the U.S. "America First" agenda, which introduced a new wave of tariff and non-tariff barriers that challenged India's export-oriented sectors and external competitiveness (Choi, Acharya, Devadoss, & Regmi, 2025; Idrisi, Gupta, Maurya, et al., 2025). The imposition of U.S. tariffs on key Indian exports such as steel, aluminium, and certain agricultural commodities was not merely a bilateral trade issueit symbolized a broader shift toward economic nationalism that disrupted global value chains and unsettled emerging market economies (Rahul & Mukherjee, 2025). The period of 2017–2020, therefore, marked a turning point in India-U.S. trade relations, compelling New Delhi to reconsider its export strategy, domestic industrial policy, and diplomatic balancing within an increasingly fragmented global trade system (Pandey, 2012).

The global context of these developments was equally turbulent. The U.S.-China trade war had already intensified volatility in world markets, weakening global demand and forcing emerging economies to diversify trade partnerships and adopt countervailing measures (Sanyal, 2021). For India, this environment coincided with a series of additional macroeconomic shocksincluding a dramatic fall and later surge in global oil prices, exchange rate pressures, and sluggish global growth following the COVID-19 pandemic. The combined effects of these shocks posed serious challenges to India's external account management and fiscal policy, given its dependence on imported crude oil and the sensitivity of domestic inflation to commodity price swings (Baumeister & Hamilton, 2019; Deb & Xu, 2021). Geopolitical conflicts, notably the Russia-Ukraine war, further exacerbated these pressures by destabilizing energy markets and deepening global supply-chain disruptions, forcing the Modi government to recalibrate its energy security and trade diversification strategies.

Empirical studies demonstrate that U.S. tariffs and associated non-tariff measures directly affected India's export performance and competitiveness. Choi et al. (2025) find that agricultural exports faced both price disadvantages and volume contraction due to heightened protectionist barriers in the U.S. market. Similarly, Idrisi et al. (2025) model the interdependence between U.S. tariffs, Indian export dynamics, and global competitiveness, showing that sustained tariff pressures tend to erode sectoral efficiency in the short run while incentivizing diversification and structural upgrading in the medium term. Rahul and Mukherjee (2025) interpret the "Trump Tariff War 2.0" as a mixed challengecreating short-term export disruptions but also opening strategic opportunities for India to fill trade gaps left by China in global supply chains. Earlier analyses by

Pandey (2012) corroborate this pattern, suggesting that tariff reductions or impositions have a nonlinear influence on India-U.S. trade volumes, mediated by exchange rate stability and industrial policy reforms.

Beyond trade, macro-financial channels amplified the transmission of these shocks. Oil price fluctuations, capital flow reversals, and currency volatility constrained the Reserve Bank of India's policy space, demanding a delicate balance between inflation control and growth support. Research on oil shocks underscores how external energy shocks have historically influenced India's inflationary trends and output cycles (Baumeister & Hamilton, 2019), while the IMF's analyses highlight how pandemic-related fiscal stimuli and health expenditures added new layers of macroeconomic stress (Deb & Xu, 2021). Against this background, India's management of multiple crisestariff shocks, oil volatility, geopolitical conflict, and pandemic-induced contractionrepresents a significant test of macroeconomic governance.

Thus, India's response under the Modi administration can be interpreted as both reactive and reform-oriented. While immediate measures focused on stabilizing external balances and supporting affected export sectors, longer-term strategies sought to enhance domestic production capacity and reduce over-reliance on any single trading partner. The government's emphasis on Production-Linked Incentive (PLI) schemes, export diversification toward Southeast Asia and Africa, and domestic infrastructure investment all reflected a broader economic doctrine: managing external shocks through structural self-reliance while maintaining global engagement. In sum, the U.S. tariff threatthough an acute challengewas one among several concurrent shocks that collectively tested India's economic resilience and policy adaptability (Choi et al., 2025; Idrisi et al., 2025; Rahul & Mukherjee, 2025; Sanyal, 2021). The cumulative experience demonstrates how India transformed a sequence of external disruptions into an opportunity to consolidate its macroeconomic stability and reposition itself in a reshaping global economy.

The escalating U.S. tariff measures under the "America First" agenda, combined with global shocks such as oil price volatility, currency fluctuations, and geopolitical tensions, have created new challenges for emerging economies like India (Rahul & Mukherjee, 2025; Idrisi et al., 2025). Although several studies have analysed the direct trade effects of tariffs (Choi et al., 2025; Pandey, 2012), limited research has explored how India's policy framework under Prime Minister Modi has adapted to sustain growth and external stability amid these disruptions.Against this background, the study seeks to address the following key questions:

1. How has India's economic strategy under Prime Minister Modi responded to U.S. tariff pressures and concurrent global shocks to preserve macroeconomic and trade stability?
2. What are the potential long-term repercussions of sustained U.S. protectionism on India's export competitiveness, industrial structure, and global value chain participation?
3. To what extent can India utilize multilateral and regional platforms to counterbalance these external threats and reinforce its strategic economic autonomy?

These questions aim to uncover how India has managed multiple external shocks through a combination of domestic reforms, trade diplomacy, and resilience-oriented policy design, offering insight into the evolving nature of India's global economic engagement.

II. LITERATURE REVIEW

The dynamics of India's economic management under external tariff threats and global shocks have attracted increasing scholarly attention in recent years. Several studies have explored how the resurgence of protectionist policies, particularly under the U.S. "America First" agenda, disrupted emerging market economies (Rahul & Mukherjee, 2025). The imposition of tariffs on Indian goods by the United States, especially on steel, aluminium, and certain agricultural exports, created a new layer of uncertainty in bilateral trade and exposed the vulnerabilities of India's export-led sectors (Choi, Acharya, Devadoss, & Regmi, 2025). In parallel, studies by Idrisi, Gupta, and Maurya (2025) highlighted how Indian exports adjusted to rising tariff barriers by diversifying trade destinations and leveraging domestic incentives under the "Make in India" program. Similarly, Pandey (2012) provided early empirical evidence that tariff reductions and liberalization policies initially strengthened Indo-U.S. trade ties, but their reversal through protectionism could lead to long-term distortions in trade competitiveness and employment generation.

Beyond tariff-related disruptions, several macroeconomic shocks have shaped India's economic trajectory during this period. Sanyal (2021) documented the spillover effects of the U.S.-China trade war, noting that India's external trade was indirectly influenced by shifting global supply chains, volatile oil prices, and geopolitical tensions in West Asia. These exogenous shocks, coupled with currency fluctuations and slower global demand post-pandemic, challenged India's growth stability and fiscal planning (Rahul & Mukherjee, 2025). Studies also point out that India's resilience partly stemmed from policy flexibilitysuch as targeted fiscal spending, foreign exchange stabilisation, and sectoral incentives that softened the impact of global headwinds (Idrisi et al., 2025; Choi et al., 2025).

Despite these valuable contributions, most existing literature remains segmentedfocusing either on trade effects (Choi et al., 2025; Pandey, 2012) or macroeconomic vulnerabilities (Sanyal, 2021)without offering an integrated understanding of how India strategically managed these overlapping crises. Few studies assess the broader policy coordination mechanisms between fiscal, monetary, and trade institutions that underpinned India's economic stability during successive global disruptions. This gap underscores the need for a comprehensive desk-based investigation that synthesizes cross-sectoral responses and policy outcomes under simultaneous tariff and non-tariff shocks.

The present study adopts a desk research approach precisely because much of the relevant datamacroeconomic indicators, trade policies, and government responsesexists in secondary form within official publications, peer-reviewed journals, and institutional reports (e.g., WTO, IMF, RBI, and NITI Aayog). Desk research allows for triangulating evidence across diverse sources to draw systematic insights on India's adaptive economic governance without primary field data collection. This approach is justified given the complex, multi-dimensional nature of the subject and the availability of rich, credible secondary data.By synthesizing prior empirical findings and policy analyses, this study contributes a holistic understanding of India's economic management strategy amid external shocks, enhancing the credibility and policy relevance of its conclusions. Such integration provides a foundation for developing robust, evidence-based recommendations for policymakers navigating future disruptions in global trade and macroeconomic stability.

III. THEMATIC ANALYSIS OF INDIA'S ECONOMIC RESPONSE TO U.S. TARIFF SHOCKS

The trade relationship between India and the United States reflects a complex interplay of tariffs, trade composition, and structural imbalances. Over the past decade, the U.S. has consistently recorded a goods trade deficit with India, driven by India's strong export performance in sectors such as pharmaceuticals, textiles, jewellery, and information technology hardware, while U.S. exports to India have largely comprised machinery, aircraft, and agricultural commodities (U.S. Census Bureau, 2024; USTR, 2024). Although the goods balance favours India, the services sector-particularly in IT, business processing, and digital solutionstends to offset part of this imbalance, as the U.S. remains a key consumer of Indian service exports (World Bank, 2024). Excluding services trade from the bilateral balance provides an incomplete view of the economic relationship because it understates India's dependency on U.S. technology imports and the value of U.S. firms' digital investments in India. Scholars like Idrisi et al. (2025) and Choi et al. (2025) argue that a purely goods-based trade assessment exaggerates the deficit narrative and fails to capture the complementary nature of U.S.-India trade integration in a post-tariff environment. Therefore, while goods trade figures suggest a deficit for the U.S., incorporating the services surplus paints a more balanced picture of mutual dependence and value creation within global value chains, underscoring the need for a holistic trade evaluation framework rather than tariff-centric interpretations.

Macro-financial spillovers are also important: reduced export inflows can tighten external balances, exert downward pressure on the rupee, and complicate monetary policy trade-offs between supporting growth and containing imported inflationparticularly given concurrent commodity and energy price volatility (Baumeister & Hamilton, 2019; Deb & Xu, 2021). Policymakers therefore face the dual task of short-run stabilization (liquidity support, targeted credit, and export incentives) and medium-term adjustment (export diversification, production-linked incentives, and deeper integration with alternative value-chain partners) to limit persistent scarring (Idrisi et al., 2025; Rahul & Mukherjee, 2025). In sum, while services and policy measures will blunt some of the immediate damage, the tariff measures materially raise adjustment costs for India's tradable sectors and stress the importance of rapid market-diversification and domestic value-addition to maintain growth and employment amid a more protectionist environment (Choi et al., 2025; Pandey, 2012).

TIMELINE OF MAJOR U.S. TARIFF MEASURES AFFECTING INDIA

Date	Product(s) Affected	Tariff Rate	Reason / Notes
12-3-25	Steel & aluminium imports into the U.S.	25% (initial)	U.S. safeguard measure under Section 232 citing national-security concerns. Press Information Bureau+1
04-6-25	Steel & aluminium & derivative articles	50%	U.S. doubled tariffs, extending to more metals categories. The Indian Express+1
02-3-25	All imports (incl. India) – baseline tariff	10% base rate	U.S. introduced universal base tariff on many imports as part of trade policy reset. ClearTax+1
08-8-25	Broad Indian exports	25% extra	U.S. announced additional "reciprocal" tariff surcharge on India's goods. India Briefing+1
27-8-25	Wide array of Indian exports	Up to 50%	U.S. Executive Order EO 14329 raised the tariff burden on Indian goods to ~50%. India Briefing

*Sources: *"Indian Exporters Face 50% US Tariff Rate Effective August 27, 2025." India Briefing, Aug 27 2025. **"US Tariff on India: Impact, Affected Products, Rates & India's Response." ClearTax, Oct 16 2025. ***"India has announced … USA has announced imposition of 25% tariff on Steel and Aluminium products …"*

Press Release, Government of India, Mar 11 2025. + "Trump steel tariffs 2025 … US to raise tariffs on foreign steel & aluminium to 50% from June 4." Indian Express, Jun 1 2025. ++ "Tariffs in the second Trump administration." Wikipedia (summary table).

Wikipedia

U.S.-INDIA GOODS TRADE STATISTICS

Year	U.S. Goods Exports to India (USD billion)	U.S. Goods Imports from India (USD billion)	U.S. Trade Balance with India (USD billion)
2022	46.8 billion	85.5 billion	–38.7 billion
2023	40.3 billion	83.6 billion	–43.2 billion
2024	41.5 billion	87.3 billion	–45.8 billion

**The U.S. has consistently run a goods trade deficit with India in recent years the U.S. imports from India have been significantly higher than its exports to India.*
**Between 2022 and 2024 the deficit widened from about -38.7 billion USD to -45.8 billion USD.*
**The tables only cover goods trade; services trade would add additional dimensions (and in many cases a different balance).*

Experts and economists generally view the recent escalation of U.S. tariff policy toward India as a shock that will transmit through multiple channelstrade, prices, employment, capital flows and global supply-chain integrationand they warn that while India's strong domestic demand and services exports provide partial buffers, the costs and distributional impacts will be real and concentrated in specific sectors. Trade economists point out that higher U.S. duties will directly reduce demand for exposed Indian manufactures (textiles, gems & jewellery, certain engineering goods, and some agricultural products), forcing firms either to absorb lower margins, reprice for the U.S. market, or seek rapid market-diversion; empirical work on prior U.S. tariff episodes shows this process produces trade diversion but also short-run output and employment losses in targeted sectors. (Amiti, Redding, & Weinstein, 2019; Choi, Acharya, Devadoss, & Regmi, 2025). Macro specialists emphasise knock-on effects: shrinking goods receipts can widen financing pressures for exporters, exert depreciation pressure on the rupee, and complicate the RBI's dual mandate of price stability and growth supportespecially when commodity shocks (e.g., oil) are simultaneous (Baumeister & Hamilton, 2019; Deb & Xu, 2021). Financial-market economists add that tariff-driven uncertainty tends to raise risk premia, trigger episodic equity and portfolio outflows, and increase hedging and working-capital costs for firms exposed to dollar invoices (Ignatenko, 2025; Peterson Institute commentary). Multilateral institutions caution that the aggregate macro impact may be modest for India's headline growth in the immediate year because of strong domestic demand and services exports, but that the cumulative medium-term cost in lost jobs, lower industrial investment, and slower structural upgrading could be sizeable if tariffs persist or escalate (World Bank; IMF commentary; Reuters coverage) (World Bank, 2025; IMF, 2025; Reuters, 2025). Policy experts therefore converge on two policy prescriptions: rapid export diversification and deeper value-addition at home (to reduce single-market dependence), and an active mix of short-run support (targeted credit, export relief, temporary fiscal offsets) with medium-term reforms (supply-side incentives and trade diplomacy) to convert tariff shocks into an opportunity for structural upgrading rather than persistent damage (Idrisi et al., 2025; Rahul & Mukherjee, 2025; Choi et al., 2025).The proposed US$100,000 visa fee for Indian software professionals would significantly burden India's IT sector, which contributes around 8% of GDP and 45% of services exports (NASSCOM, 2024). Such a steep cost increase could reduce Indian firms' competitiveness by raising project expenses by 15-20%, limit on-site deployment, and strain bilateral technology collaboration (Chanda & Gupta, 2023; World Bank, 2025). Experts warn that this protectionist step, combined with tariffs, threatens India's comparative advantage in services and could worsen its trade balance. Moreover, the U.S. may also face skill shortages and innovation slowdowns due to reduced access to Indian tech talent (Kerr & Lincoln, 2010; Peri, Shih, & Sparber, 2015).

IV. INDIA'S RESPONSE

India's response to the escalating U.S. tariff and protectionist measures has been marked by strategic economic diplomacy, diversification, and resilience-building. Rather than engaging in a direct trade confrontation, India has pursued a multi-pronged counterstrategystrengthening trade ties with alternative partners such as the EU, ASEAN, and the Global South; incentivizing domestic manufacturing through initiatives like Make in India and the Production-Linked Incentive (PLI) schemes; and accelerating digital and green transformations to boost competitiveness (Bhattacharya & Rajan, 2024; Ministry of Commerce & Industry, 2025). These efforts reflect New Delhi's pragmatic balancing actmitigating short-term export shocks from U.S. tariffs while reinforcing long-term economic self-reliance and strategic autonomy. Moreover, India's calibrated policy stance, avoiding retaliatory escalation, underscores its intent to project stability and reliability amid shifting global trade dynamics (Ghosh, 2024).

DIPLOMATIC AND NEGOTIATION STRATEGY

India's diplomatic and negotiation strategy with the United States has been central to its approach in managing tariff-related tensions. The Indian government has actively engaged with the Office of the U.S. Trade Representative (USTR) and the White House Trade Council to seek tariff exemptions and restore preferential trade treatment that was suspended under the Generalized System of Preferences (GSP) in 2019. Through continuous dialogue, India has emphasized its role as a strategic trade and defence partner, highlighting mutual economic benefits, particularly in sectors like pharmaceuticals, information technology, and renewable energy (Sahoo & Ray, 2023). These negotiations aim not only at tariff relief but also at rebalancing trade asymmetries by addressing non-tariff barriers and improving market access for Indian exports. According to Singh and Dutta (2024), such diplomatic engagements reflect India's shift toward a negotiated reciprocity model, where economic cooperation is pursued alongside political alignment in the Indo-Pacific framework. Moreover, India's participation in multilateral forums like the Indo-Pacific Economic Framework (IPEF) strengthens its position in bilateral negotiations, signaling its commitment to transparent and rules-based trade (Rao, 2025).

RETALIATORY TARIFFS

In response to the escalating tariff measures imposed by the United States, India strategically implemented retaliatory tariffs on a select range of U.S. exports, including almonds, apples, walnuts, chickpeas, boric acid, and certain motorcycles. These counter-tariffs, introduced under the Customs Tariff Act of 1975, served both as a symbolic and economic countermeasure to assert India's trade sovereignty and protect domestic producers from asymmetric trade pressures. According to Chandra and Kapoor (2023), this move was calibrated to minimize domestic inflationary effects while targeting politically sensitive U.S. exports from agricultural states, thereby sending a strong diplomatic message. The policy was also grounded in the principles of reciprocity under the World Trade Organization (WTO) framework, as India sought to realign the bilateral trade balance without breaching multilateral obligations (Mehta & Srivastava, 2024). Further, the retaliation demonstrated India's evolving stance from a reactive trade partner to a strategically assertive economy, signaling that unilateral tariff actions against it would invite proportionate consequences (Patra, 2025). This approach helped India strengthen its negotiation position with Washington while maintaining internal political and economic stability.

DIVERSIFICATION & POLICY ADJUSTMENTS

As part of its broader strategy to mitigate the adverse effects of U.S. tariffs and external shocks, India undertook a deliberate diversification and policy adjustment agenda focused on strengthening domestic production and reducing import dependency. The government intensified efforts under initiatives such as "Atmanirbhar Bharat" (Self-Reliant India) and the Production-Linked Incentive (PLI) Scheme, aimed at promoting indigenous manufacturing in key sectors including electronics, semiconductors, textiles, and renewable energy (Singh & Dutta, 2023). These measures were designed not only to insulate the economy from tariff-induced vulnerabilities but also to reposition India as a global supply chain alternative to China amid growing trade fragmentation (Rao & Gupta, 2024). According to Kumar and Sharma (2024), the focus on import substitution and export diversificationespecially toward ASEAN, the EU, and African marketshas enhanced India's trade resilience while stimulating domestic value addition. Moreover, the policy thrust on Make in India 2.0 and Ease of Doing Business reforms has attracted foreign investment in priority sectors, thereby cushioning the impact of external protectionism. Collectively, these actions demonstrate India's pragmatic shift from dependence to strategic self-reliance, aligning industrial policy with long-term trade competitiveness goals (Deshpande, 2025).

EXPLORING ALTERNATE MARKETS THROUGH TRADE AGREEMENTS (E.G., EU, ASEAN, AFRICA)

In response to escalating U.S. tariff pressures and the need to cushion its export sector, India strategically expanded its outreach to alternate markets through a renewed focus on bilateral and regional trade agreements with the European Union (EU), ASEAN nations, and African economies. This diversification aimed to reduce India's over-reliance on the U.S. market and create new avenues for trade resilience. Negotiations under the India-EU Free Trade Agreement (FTA) and the India–UK Comprehensive Economic Partnership Agreement (CEPA) were fast-tracked to enhance market access for Indian goods and services (Bhattacharya & Nair, 2024). Concurrently, India leveraged its Act East Policy to deepen integration with ASEAN through the India-ASEAN Trade in Goods Agreement (AITIGA) review, focusing on lowering tariffs and improving supply chain connectivity (Menon & Pillai, 2023). Moreover, India strengthened its presence in African markets via the

India-Africa Forum Summit platform, emphasizing investments in infrastructure, healthcare, and technology-driven trade partnerships (Rao & Singh, 2024).

According to Patel and Roy (2025), this pivot toward diversified markets not only mitigates exposure to U.S. tariff risks but also aligns with India's long-term vision of "South-South cooperation" and global trade rebalancing. These initiatives collectively underscore India's pragmatic foreign trade policyanchored in diversification, partnership, and resilience-building against protectionist shocks (Kumar, 2025).

India's fiscal response through tax rationalization played a crucial role in cushioning the domestic economy against the adverse effects of U.S. tariffs and global trade disruptions. The reduction in direct tax rates and the simplification of the Goods and Services Tax (GST) framework were strategic tools aimed at stimulating domestic consumption, investment, and business sentiment during periods of external trade pressure.

REDUCTION IN PERSONAL INCOME TAX RATES AND RATIONALIZATION OF GST

To counter declining external demand and tariff-induced export uncertainty, the government significantly lowered the direct tax burden on individuals, revising the tax slabs and increasing the exemption threshold up to ₹12,00,000 for certain income groups. This reform aimed to enhance disposable income, thereby encouraging household spending and domestic demand, which are critical drivers of India's growth momentum (Rao & Mukherjee, 2023). According to Subramanian and Sinha (2024), this personal tax relief was not merely a populist move but a calculated macroeconomic response intended to create a buffer against trade-induced slowdowns by shifting reliance from external to internal demand.Simultaneously, the Goods and Services Tax (GST) structure was simplified to promote efficiency, compliance, and affordability. The earlier system of multiple GST slabs was streamlined to a few key rates, excluding sin goods and luxury items that continue to attract a higher rate of 40%, as noted by Bhanumurthy and Das (2022). This rationalization reduced tax complexities and stabilized consumer prices, particularly for essential and mass-consumption goods. The simplification was also meant to encourage small and medium enterprises (SMEs) by reducing compliance costs and cascading tax effects, fostering domestic production and supply-chain resilience (Goyal & Arora, 2025).

Economists argue that these tax reforms reflect a strategic shift toward demand-led growth, positioning domestic consumption as the backbone of India's economic resilience in the face of external shocks, including the U.S. tariff threat, volatile oil prices, and geopolitical tensions. By empowering households with higher disposable income and simplifying indirect taxes, India effectively strengthened its internal market to sustain growth momentum even when global conditions turned adverse (Idrisi et al., 2025).In essence, the cut in personal income tax rates and the simplified GST framework were crucial components of India's policy toolkit to neutralize the impact of global trade restrictions, enhance fiscal efficiency, and bolster domestic economic activity reinforcing India's economic sovereignty amid protectionist pressures.

INDIA'S FINANCIAL SOVEREIGNTY THROUGH RESERVE REBALANCING

Recent evidence suggests that India has strategically diversified its foreign reserves by reducing exposure to U.S. financial assets while increasing its gold holdingsa move interpreted by economists as part of a broader effort to strengthen economic sovereignty amid external uncertainties, including tariff-related tensions. The Reserve Bank of India (RBI) has repatriated a significant share of its gold reserves from foreign vaults, reportedly bringing back around 64 tonnes between March and September 2025, thus signaling a deliberate policy shift toward asset diversification (Angel One, 2025). Simultaneously, India's holdings of U.S. Treasury securities have declined from approximately USD 242 billion to USD 227 billion over a one-year period, reflecting a cautious rebalancing of foreign reserves (Business Standard, 2025). Analysts argue that this pattern aligns with a global trend of "de-dollarisation," as countries like India seek to mitigate exposure to U.S. monetary policy risks and geopolitical volatility (Sathyanarayana S, &Mohanasudaram(2025); Moneycontrol, 2025). While some commentators misinterpreted this shift as a direct retaliatory withdrawal of gold in response to U.S. tariffs, independent fact-checking sources confirm that no such causal link has been established; rather, the move reflects a long-term strategic diversification of reserve assets (NewsMeter, 2025). From a policy standpoint, this approach enhances India's financial resilience, reduces dependence on U.S. institutions, and strengthens the nation's ability to manage external shocksan important complement to its broader macroeconomic strategy of sustaining growth despite trade hostilities from the United States.

LEGAL & MULTILATERAL ACTIONS

India also pursued a legal and multilateral route by challenging U.S. tariff measures at the World Trade Organization (WTO), asserting that such actions violated the principles of free and fair trade under the General Agreement on Tariffs and Trade (GATT) 1994. Specifically, India contested the U.S. imposition of steel and aluminium tariffs under Section 232 of the Trade Expansion Act, arguing that the U.S. national security justification was a form of disguised protectionism inconsistent with WTO obligations (WTO Dispute Settlement DS547, 2018). According to Gupta and Sharma (2024), India's legal stance emphasized the need to preserve multilateral trade norms against unilateral and arbitrary tariff actions that disrupt global value chains.India's appeal to the WTO's Dispute Settlement Body reflected not just a defence of its economic interests but also a commitment to the rules-based international order. As noted by Mehta and Basu (2025), this approach strengthened India's position as a responsible global actor advocating for institutional remedies rather than retaliatory escalation. Although the WTO appellate system has faced paralysis due to the U.S. blocking of appointments, India's consistent engagement demonstrates its intent to resolve disputes through lawful, transparent, and multilateral mechanisms (Raj & Dutta, 2023).This strategy, while slow in yielding immediate relief, reinforces India's diplomatic credibility and sends a message that trade conflicts should be settled within global governance frameworks rather than through bilateral power plays (Singh, 2025).

STRENGTHENING "MAKE IN INDIA" AND PRODUCTION-LINKED INCENTIVE (PLI) SCHEMES

In response to rising global protectionism and U.S. tariff measures, India reinforced its "Make in India" initiative by expanding Production-Linked Incentive (PLI) Schemes across key sectors to drive self-reliance, reduce import dependency, and enhance export competitiveness. The PLI schemes, covering 14 strategic sectorsincluding electronics, semiconductors, pharmaceuticals, and renewable energyoffer financial incentives linked to incremental sales from products manufactured domestically (NITI Aayog, 2024). These policies are intended not only to attract foreign direct investment (FDI) but also to develop resilient supply chains independent of external disruptions such as tariff shocks or geopolitical uncertainties (Singh & Raj, 2023).

Empirical evidence suggests that these schemes are beginning to yield results. For instance, the electronics and smartphone manufacturing sector saw investments exceeding ₹90,000 crore, contributing to a surge in exports and positioning India as a global manufacturing hub (Ministry of Commerce & Industry, 2024). Similarly, in the solar and renewable energy sector, PLI incentives are supporting domestic module and battery cell manufacturing, reducing reliance on Chinese imports (Kumar & Das, 2023). These strategic interventions align with the larger Atmanirbhar Bharat (Self-Reliant India) framework, which aims to boost domestic value addition while cushioning India against tariff-induced shocks from advanced economies. Overall, the PLI framework has transformed India's industrial base from an import-dependent model to an increasingly export-oriented ecosystem, capable of withstanding external economic pressures (RBI Bulletin, 2024; IBEF, 2025).

RUPEE TRADE SETTLEMENTS AND DE-DOLLARIZATION PUSH

To mitigate the impact of U.S. tariffs, sanctions, and dollar volatility, India has actively pursued rupee-based trade settlement mechanisms as part of its broader de-dollarization strategy. This initiative aims to reduce reliance on the U.S. dollar for international transactions, thereby insulating the Indian economy from exchange rate shocks and potential disruptions in dollar liquidity. Under this framework, India established bilateral trade arrangements with key partners such as Russia, the United Arab Emirates (UAE), and select ASEAN nations, allowing trade in Indian rupees instead of U.S. dollars (Patnaik & Mohanty, 2023; RBI, 2024; Sathyanarayana S, &Mohanasudaram,2025). The Reserve Bank of India's introduction of the International Trade Settlement in Indian Rupees (INR) mechanism has encouraged exporters and importers to invoice and settle payments in rupees, strengthening India's external financial autonomy (RBI Bulletin, 2024). These agreements have not only enhanced India's resilience against U.S. financial sanctions but also promoted the rupee as a viable trade currency in the Global South. Moreover, as global supply chains increasingly diversify away from the West, India's proactive de-dollarization efforts have positioned it as a pivotal player in the evolving multipolar trade order (Bhattacharya, 2024; Chatterjee & Rao, 2025).

ENERGY SECURITY AND DIVERSIFICATION

In response to the volatility and uncertainty created by U.S.-imposed tariff measures and broader geopolitical tensions, India has undertaken a comprehensive strategy to diversify its energy import sources. This move aims to strengthen energy security and insulate the economy from potential price shocks stemming from U.S.-linked supply chains and sanctions. India has increased crude oil imports from Russia, the Middle East (particularly Saudi Arabia and the UAE), and Latin America, thereby reducing dependence on traditional Western suppliers (IEA, 2024; Rao & Bhatia, 2023). Following the imposition of U.S. sanctions on certain energy-exporting nations and disruptions in global supply networks, India leveraged discounted Russian crude, which accounted for over 30% of its total oil imports in 2024up from less than 2% in 2021 (IEA, 2024). This strategic diversification not only helped stabilize domestic fuel prices but also strengthened the current account balance by reducing foreign exchange outflows. Moreover, India expanded its long-term energy partnerships with countries in Latin America and Africa to ensure supply continuity and negotiated favourable terms under rupee-denominated trade settlements. The energy diversification strategy, supported by policy interventions in renewable energy and the expansion of strategic petroleum reserves, demonstrates India's pragmatic and adaptive approach to balancing economic resilience and energy independence amidst global trade hostilities (Ghosh, 2024; Ministry of Petroleum and Natural Gas, 2025).

INVESTMENT IN TECHNOLOGICAL SELF-RELIANCE

India's response to U.S. tariff pressures and global trade disruptions has been strongly anchored in its pursuit of technological self-reliance. Under the broader vision of Atmanirbhar Bharat, the government has intensified investments in "Digital India,""Make in India 2.0," and the Semiconductor Mission to strengthen domestic capacity in high-value, technology-intensive sectors. These initiatives aim to reduce dependency on U.S.-based or China-centric supply chains, particularly in critical technologies like semiconductors, electronics, artificial intelligence (AI), and cloud infrastructure (Gupta & Srinivasan, 2025). The India Semiconductor Mission (ISM), launched in 2022, received over ₹76,000 crore in funding to attract global chip manufacturers and develop indigenous design ecosystems, a move essential for securing India's digital sovereignty (NITI Aayog, 2024). Simultaneously, the Digital India program expanded data centre capacity and incentivized domestic production of electronic hardware through fiscal incentives and production-linked schemes. These policies not only position India as an emerging tech manufacturing hub but also safeguard the economy from external technological embargoes or tariff-induced disruptions. Furthermore, AI-led initiatives under the National Strategy for Artificial Intelligence 2025 emphasize ethical innovation and public-sector digitalization, ensuring that India's growth remains inclusive, sustainable, and resilient to foreign trade pressures (Rao & Mehta, 2024; Ministry of Electronics and IT, 2025). Together, these measures reflect India's strategic pivot toward achieving technological autonomy and supply chain resilience as a means of economic defence against global protectionist shocks.

MONETARY POLICY ADJUSTMENTS AND EXCHANGE RATE MANAGEMENT

In response to the U.S. tariff escalation and accompanying global financial turbulence, the Reserve Bank of India (RBI) adopted a pragmatic monetary stance aimed at maintaining macroeconomic stability while supporting growth. India followed a managed float exchange rate system, intervening selectively in the foreign exchange market to curb excessive rupee volatility caused by U.S. dollar appreciation and capital outflows (RBI, 2025). By strategically deploying its foreign exchange reserves, which stood above USD 600 billion for much of 2024-2025, the RBI ensured adequate liquidity to counter speculative pressures and maintain investor confidence (IMF, 2025). Alongside exchange rate management, the central bank balanced its interest rate policymoderately tightening rates to contain imported inflation while providing targeted liquidity support to productive sectors (Patra & Ghosh, 2024; 10. Sathyanarayana S &Mohanasundaram, 2025).

These measures insulated India from external shocks linked to U.S. monetary tightening and trade-related uncertainties. Moreover, the RBI enhanced its currency swap lines with partner nations, including Japan and the UAE, to reduce dollar dependency and facilitate bilateral settlements in local currencies, aligning with India's de-dollarization strategy (Patnaik & Mohanty, 2023). The proactive use of macroprudential toolssuch as foreign portfolio investment monitoring, forward market interventions, and calibrated capital account managementhelped mitigate speculative movements and maintain orderly financial conditions. Collectively, these policies highlight how India leveraged monetary autonomy and strong institutional credibility to navigate an increasingly hostile global trade and financial environment (Subbarao, 2024; World Bank, 2025).

BOOSTING AGRICULTURAL EXPORTS AND RURAL CONSUMPTION

To counter the adverse effects of declining U.S. trade volumes, India strategically prioritized agricultural exports and rural market stimulation as part of its domestic resilience plan. The government introduced new export promotion schemes targeting high-value crops, processed foods, and organic produce under initiatives such as the Agriculture Export Policy (AEP) 2024 and the One District One Product (ODOP) program (Mehta, 2024; Ministry of Commerce, 2024). These efforts aimed to enhance farmers' income, diversify export destinations, and reduce overdependence on markets vulnerable to tariff shocks. Simultaneously, rural MSMEs engaged in agri-processing and handicrafts received fiscal incentives, credit guarantees, and digital trade facilitation through platforms like e-NAM and GeM Rural Connect (NITI Aayog, 2024).

To strengthen domestic consumption, the government expanded rural infrastructure spending under the Pradhan Mantri Gram Sadak Yojana (PMGSY) and PM-KISAN schemes, improving rural connectivity and direct income support to farmers. The increased cash flow in rural areas boosted demand for FMCG, construction materials, and agro-equipment, thereby reinforcing India's internal economic engine amid global trade disruptions (Kumar & Sinha, 2024). Furthermore, targeted agri-export corridors were developed in Gujarat, Maharashtra, and Andhra Pradesh to enhance logistics and cold storage capacities, enabling farmers to access alternative markets in the Middle East, Africa, and Southeast Asia (FAO, 2024). Collectively, these measures illustrate India's dual strategy of promoting export competitiveness while deepening rural consumption linkages, which served as a vital buffer against external tariff shocks and global demand slowdowns.

FINANCIAL SECTOR AND BANKING REFORMS

In response to the economic disruptions triggered by escalating U.S. tariffs and global trade uncertainty, India undertook comprehensive financial sector and banking reforms aimed at strengthening credit flow, improving liquidity, and ensuring macro-financial stability. The government implemented a large-scale recapitalization program for public sector banks (PSBs) to enhance their lending capacity and mitigate the risk of non-performing assets (NPAs), particularly in trade-exposed and MSME sectors (Kumar & Das, 2024; Ministry of Finance, 2024). Between 2023 and 2025, over ₹1.5 trillion was infused into PSBs, ensuring capital adequacy under Basel III norms and enabling the extension of affordable credit to industries facing export slowdowns.

Simultaneously, the government expanded digital credit access through platforms like the Jan Samarth Portal and Open Credit Enablement Network (OCEN), which streamlined online loan approvals for small entrepreneurs and exporters affected by declining U.S. demand (RBI, 2025). The Emergency Credit Line Guarantee Scheme (ECLGS) was also extended, offering collateral-free loans to MSMEs and service sector units with disrupted cash flows (NABARD, 2024). These interventions significantly improved credit penetration in rural and semi-urban regions, stimulating domestic production and consumption.

Moreover, regulatory reforms under the Insolvency and Bankruptcy Code (IBC) and banking consolidation efforts (e.g., merging smaller PSBs into larger entities) enhanced the resilience and efficiency of India's financial ecosystem. The Reserve Bank of India (RBI) also employed targeted liquidity adjustment measures and relaxed provisioning norms to sustain credit availability amid global monetary tightening (RBI, 2025). Collectively, these initiatives not only shielded India's banking system from external trade shocks but also reinforced domestic investment momentum, positioning financial intermediation as a critical pillar of India's broader economic counter-strategy.

GLOBAL SOUTH COALITION-BUILDING

Amid the intensifying tariff hostilities from the United States, India strategically strengthened its leadership role within the Global South to counter economic marginalization and promote equitable trade norms. By aligning with emerging economies through platforms such as G20, BRICS, and the Global South Summit, India advanced a diplomatic and economic coalition advocating for tariff parity, reform of global trade rules, and a more inclusive multilateral order (Tharoor, 2025; Singh, 2024). This positioning not only enhanced India's negotiating leverage with developed economies but also provided a unified voice for developing nations confronting similar trade vulnerabilities.

India's engagement in BRICS economic initiativesespecially with Brazil, Russia, China, and South Africafocused on reducing dollar dependency in trade settlements and expanding access to infrastructure financing through the New Development Bank (NDB) (Joshi & Menon, 2024). Simultaneously, under its G20 presidency, India emphasized "One Earth, One Family, One Future," advocating for supply chain diversification and resilience against trade protectionism (MEA, 2023). These efforts have helped India transition from being a policy taker to a policy influencer in the global trade architecture, positioning it as a stabilizing force in the Global South coalition.

By promoting south–south cooperation in technology transfer, sustainable energy, and digital infrastructure, India effectively reframed tariff challenges as opportunities to deepen strategic and economic ties with the developing world. Such diplomatic outreach has also insulated India from overreliance on Western markets and provided a collective bargaining shield against unilateral trade actions.

ECONOMIC MEASURES: SUBSIDIES AND RELIEF PACKAGES TO AFFECTED INDUSTRIES

In response to the U.S. tariff escalations, India introduced a range of economic relief measures and targeted subsidies to cushion the impact on industries most affected by trade disruptions. Sectors such as steel, aluminium, textiles, and agriculture, which faced steep tariff barriers in U.S. markets, were provided with production incentives, export subsidies, and credit support through government schemes like the Export Credit Guarantee Corporation (ECGC) and the Remission of Duties and Taxes on Exported Products (RoDTEP) (Ministry of Commerce & Industry, 2024). These measures aimed to preserve competitiveness in global markets by offsetting higher input costs and reduced demand from the U.S.

The government also rolled out sector-specific relief packages under the Atmanirbhar Bharat Abhiyan framework, providing fiscal support to micro, small, and medium enterprises (MSMEs) and export-oriented firms affected by the tariff war (RBI, 2024; Mehta & Sinha, 2023). The Emergency Credit Line Guarantee Scheme (ECLGS) was extended for manufacturing and export sectors, improving liquidity and preventing large-scale job losses. Additionally, interest subvention schemes and tax rebates were offered to exporters to enhance working capital efficiency and sustain global supply chain linkages (Chakraborty & Dasgupta, 2023).Moreover, the government increased allocations for infrastructure development and logistics efficiency, particularly in ports and inland freight systems, to reduce the cost of exports and enhance supply chain resilience. These fiscal and structural interventions collectively helped mitigate the adverse spillover effects of U.S. protectionist policies while reinforcing India's long-term industrial competitiveness.

V. EFFECTIVENESS OF INDIA'S RESPONSES

India's counter-strategy to the U.S. tariff escalation and associated global shocks has shown a mix of resilience and select vulnerability across sectors. The Production-Linked Incentive (PLI) and "Make in India" schemes have significantly strengthened India's domestic manufacturing and export competitiveness, particularly in electronics, pharmaceuticals, and renewable energy. Singh and Raj (2023) and the NITI Aayog (2024) reported that the PLI framework catalysed new investments exceeding ₹8 trillion and created substantial export momentum in high-technology sectors. The performance-linked incentives have encouraged multinational firms to relocate part of their value chains to India, thereby mitigating some of the disruptions caused by the U.S. tariff shocks. Similarly, the Ministry of Commerce and Industry (2025) emphasized that the share of PLI sectors in total exports has doubled since 2020, underscoring the program's role in cushioning the domestic economy from external trade disruptions.

At the same time, India's services sector, particularly information technology and business process outsourcing, has remained robust and continues to offset some of the losses in goods exports. According to NASSCOM (2025), India's digital and software service exports grew steadily despite U.S. restrictions and rising protectionism. This resilience highlights the country's comparative advantage in human capital–intensive services and demonstrates how sectoral diversification has shielded overall GDP from trade-related shocks (Gupta & Srinivasan, 2025).

Financial-sector measures have also enhanced India's ability to absorb external shocks. The recapitalization of public sector banks and the expansion of credit guarantee under the Emergency Credit Line Guarantee Scheme (ECLGS) improved liquidity flow, especially to micro, small, and medium enterprises (MSMEs). The Reserve Bank of India (2025) indicated that these interventions reduced credit stress among export-dependent firms and prevented a spillover of trade shocks into the financial system. Likewise, expanded insurance coverage from the Export Credit Guarantee Corporation (ECGC) ensured that exporters could continue accessing overseas markets with reduced risk exposure (Kumar & Das, 2024).

However, the results are uneven across sectors. Capital-intensive industries such as electronics, semiconductors, and pharmaceuticals have thrived under targeted government incentives, whereas labour-intensive sectorstextiles, gems and jewellery, and small-scale agriculturehave lagged due to higher exposure to U.S. tariffs and weaker domestic demand linkages (Pandey, 2024; Idrisi, Gupta, Maurya, et al., 2025). Furthermore, while India's RoDTEP (Remission of Duties and Taxes on Exported Products) and MEIS (Merchandise Exports from India Scheme) programs provided compensation for exporters, these measures have not always matched the magnitude of losses incurred due to higher foreign tariffs (DGFT, 2024).

At the macroeconomic level, the balance of payments has remained under moderate pressure, with trade deficits widening slightly as import costs rose and external demand softened. Yet, strong capital inflows, resilient remittances, and a steady services surplus helped maintain overall stability. The Reserve Bank of India (2025) also used its foreign exchange reserves to stabilize the rupee under a managed float regime, effectively reducing currency volatility caused by dollar appreciation and external uncertainty.

Another notable achievement lies in India's energy diversification policy, where the government expanded crude sourcing from non-U.S. suppliers such as Russia, Saudi Arabia, and Brazil, mitigating the inflationary pass-through of global oil price shocks (Rao & Bhatia, 2023; International Energy Agency, 2024). The combination of energy diversification and rupee-based trade settlements reduced vulnerability to sanctions and currency swings, reflecting the country's strategic flexibility (Sathyanarayana S &Mohanasundaram, 2025).

Nevertheless, the success of these responses remains partial. While manufacturing and services have strengthened, the benefits have been concentrated in high-growth industries, leaving lower-end sectors and small exporters relatively unprotected. Moreover, climate-related non-tariff barriers and carbon adjustment mechanisms in Western markets pose new risks to India's competitiveness (Rahul & Mukherjee, 2025). Thus, although India has effectively used industrial policy, monetary intervention, and trade diplomacy to withstand the tariff shock, the outcomes are best described as resilient yet incomplete. Sustained reforms in logistics, value chain integration, and market diversification remain essential to convert short-term resilience into long-term global competitiveness.

VI. LESSONS FOR FUTURE U.S.-INDIA TRADE RELATIONS

The recent phase of tariff hostilities and retaliatory measures between the United States and India offers several critical lessons for shaping future trade relations. First, the experience underscores the need for strategic interdependence rather than transactional trade diplomacy. India's ability to sustain export growth despite punitive tariffs reveals that diversified trade linkages and domestic industrial resilience can moderate the asymmetric power of U.S. trade policy (Rahul & Mukherjee, 2025; Choi, Acharya, Devadoss, & Regmi, 2025).

Policymakers on both sides must thus acknowledge that protectionist interventions can generate diminishing returnsdistorting global supply chains and elevating input costs even for U.S. manufacturers reliant on Indian intermediates (Idrisi, Gupta, & Maurya, 2025).

Second, this episode highlights the importance of institutionalized dialogue and predictable dispute resolution mechanisms. Past USTR consultations and WTO-mediated settlements between the two countries have reduced trade frictions and restored confidence in rules-based engagement (WTO, 2025). Future negotiations should institutionalize a bilateral framework for resolving tariff, visa, and non-tariff issuesreducing the risk of escalation into retaliatory trade cycles (Sanyal, 2021). Enhanced transparency in tariff-setting and coordinated reform of regulatory standards can ensure a stable investment climate for firms on both sides.

Third, both nations can benefit from sector-specific cooperation rather than broad-spectrum contention. Given India's growing strength in digital services, pharmaceuticals, and renewable energy, sectoral trade agreements could generate mutual benefits while minimizing friction in politically sensitive areas like agriculture and steel (Pandey, 2012; Bhattacharya, 2025). The continuation of India's Production-Linked Incentive (PLI) and "Make in India" schemes also provide an opportunity for U.S. firms to participate in India's manufacturing ecosystem, aligning with Washington's objective of diversifying away from China (Singh & Raj, 2023).

Finally, the experience demonstrates that economic diplomacy must be complemented by macroeconomic preparedness. India's fiscal reforms, monetary stability, and market diversification helped mitigate the shock of U.S. tariffslessons that other emerging economies can emulate. At the same time, the United States must recognize the long-term value of a strong, economically independent India as a geopolitical counterweight in the Indo-Pacific (Rahul & Mukherjee, 2025). A stable, forward-looking trade partnership grounded in reciprocity, predictability, and shared technological innovation would better serve both nations' strategic and economic interests.

VII. BROADER IMPLICATIONS FOR GLOBAL TRADE UNDER PROTECTIONIST REGIMES

The recent escalation of U.S. tariffs against India represents not merely a bilateral dispute but a symptom of a broader transformation in global trade dynamicsmarked by rising protectionism, weaponization of tariffs, and the erosion of multilateral consensus. The shift toward economic nationalism, epitomized by the United States' "America First" policy, has signalled a departure from the liberal trade order that once prioritized free-market efficiency and global value chain integration (Rahul & Mukherjee, 2025). For developing economies such as India, this new environment necessitates the reconfiguration of trade strategiesbalancing export competitiveness with domestic resilience.

The resurgence of protectionism has reshaped the architecture of global supply chains. According to Idrisi, Gupta, and Maurya (2025), tariff-induced distortions have triggered costly realignments in manufacturing, with firms relocating production from traditional export hubs toward more politically aligned or cost-efficient regions. India's efforts to capture part of this supply-chain diversification especially from East Asia illustrate how emerging economies can capitalize on the reorganization of global trade, though the transition remains uneven. Protectionist regimes, by design, often induce inefficiencies and retaliatory cycles, which tend to harm smaller economies disproportionately by reducing their market access and raising compliance costs (Bhattacharya, 2025).

Another major implication concerns the erosion of multilateralism. The weakening authority of institutions such as the World Trade Organization (WTO) has allowed unilateral tariff actions to proliferate, undermining the credibility of dispute resolution mechanisms (Sanyal, 2021). India's legal challenges to U.S. measures at the WTO highlight both the limits and the enduring relevance of such multilateral systems in mediating trade conflicts. While the WTO's appellate paralysis constrains enforcement, the forum continues to serve as a normative platform for smaller economies to assert their rights under global trade law (WTO, 2025).

Protectionist policies have also exposed systemic vulnerabilities in the global South. For nations like India, increased tariffs on goods and restrictions such as the $100,000 H-1B visa fee on software professionals have curtailed export earnings and labour mobility, while heightening pressure on service-led growth (Choi, Acharya, Devadoss, & Regmi, 2025). The cascading effect of such measures can disrupt remittance flows, digital trade, and cross-border knowledge transfer elements central to India's economic model. These restrictions not only dampen bilateral trade but also challenge the developmental narrative of globalization that sustained emerging economies for over three decades (Pandey, 2012).

A further global implication is the rise of economic regionalism as a counterbalance to protectionism. India's engagement with trade blocs such as ASEAN, the African Continental Free Trade Area (AfCFTA), and the European Union reflects a pragmatic pivot toward multipolar economic diplomacy (Patnaik & Mohanty, 2023). As protectionist tendencies intensify, countries increasingly seek stability through diversified trade partnerships and localized value chainswhat scholars' term "strategic deglobalization" (Mehta, 2024). This reconfiguration, while reducing dependency on any single market, also risks fragmenting the world economy into competing blocs, with significant long-term implications for global growth, innovation diffusion, and capital mobility.

Finally, the India–U.S. tariff episode underlines a key paradox: protectionism often undermines the very economic and geopolitical objectives it seeks to achieve. While it may temporarily safeguard domestic industries or signal political strength, it typically raises costs, invites retaliation, and disrupts global demand (Rao & Bhatia, 2023). For developing economies, the lesson is cleareconomic sovereignty must be built not through isolation, but through resilient, diversified, and innovation-driven integration into global trade. Thus, India's calibrated responseanchored in macroeconomic stability, diplomatic engagement, and supply-chain reformoffers a potential model for other emerging economies navigating the complexities of a fragmented global trading order.

VIII. DISCUSSION AND CONCLUSION

India's response to the protectionist and tariff-centric policies of the United States under the Trump and post-Trump eras has been a critical case study in economic resilience and strategic recalibration. The imposition of tariffs on Indian steel, aluminium, and other exports, alongside non-tariff barriers such as visa restrictions and financial sanctions, initially disrupted India's trade flows, and investor confidence (USTR, 2024; WTO, 2025). However, India's countermeasuresspanning fiscal reforms, diversification of export markets, and investment in domestic capacityhave collectively mitigated the shocks emanating from U.S. trade hostility. Data from the U.S. Census Bureau (2025) reveals that despite cumulative tariff increases of up to 50% on select goods, India's exports to the U.S. remained resilient at USD 87.3 billion in 2024, reflecting adaptive competitiveness supported by targeted government interventions.

The strategic reorientation of India's trade and production base toward domestic value addition and technological self-reliance marked a pivotal shift. The expansion of the Production Linked Incentive (PLI) scheme, particularly in sectors like electronics, semiconductors, and renewable energy, helped cushion the effects of external shocks and attract global manufacturing relocations from China (Singh & Raj, 2023; NITI Aayog, 2024). For example, India's electronics exports surged by over 35% in FY 2024-25, accounting for one of the largest contributors to non-oil merchandise growth (Ministry of Commerce, 2025). This transformation underscores how industrial policy has evolved from import substitution toward global competitivenessconsistent with endogenous growth theory that links innovation-driven capacity building to long-term resilience (Romer, 1990).

Macroeconomic stability also served as a buffer against the tariff-induced external imbalances. The Reserve Bank of India's (RBI, 2025) policy of managing exchange rate volatility through active forex interventions ensured rupee stability despite U.S. dollar appreciation. India's foreign exchange reserves remained robust, averaging USD 640 billion in 2025, mitigating speculative currency pressures, and maintaining investor confidence. Moreover, fiscal consolidation through the rationalization of Goods and Services Tax (GST) rates and the reduction in direct tax burdens increased domestic consumption and enhanced aggregate demand (Economic Survey, 2025). This fiscal-monetary coordination reflected Keynesian stabilization principles, wherein internal demand stimuli offset external trade shocks.

India's diplomatic and legal responses also carried significant implications for global trade governance. Through consistent engagement with the United States Trade Representative (USTR) and multilateral forums like the WTO and G20, India emphasized reciprocity, fair competition, and adherence to international trade norms (Bhattacharya, 2025; WTO, 2025). While WTO's dispute resolution processes remain slow, India's proactive legal stance positioned it as a defender of multilateralism amidst a resurgence of protectionism. Additionally, India's rupee trade settlements with Russia, the UAE, and select ASEAN countries reduced its exposure to the U.S. dollar, aligning with broader de-dollarization trends across the Global South (Patnaik & Mohanty, 2023).

From a developmental perspective, India's measures have been moderately successful in protecting growth momentum. GDP growth in 2024-25 stood at 7.2%, one of the highest among major economies (IMF, 2025). However, certain sectorssuch as gems and jewellery, textiles, and IT servicescontinued to face challenges due to demand contractions and visa-related barriers like the increased H-1B visa fee of USD 10,000 per application, which raised operational costs for Indian firms in the U.S. (Chaudhuri, 2024). Nevertheless, India's diversification toward ASEAN, African, and European markets partially compensated for these setbacks (Mehta, 2024).In conclusion, India's management of the economic fallout from the U.S. tariff regime represents a blend of pragmatic policy adjustments, strategic diversification, and institutional resilience. The success of India's approach lies not merely in short-term damage control but in its long-term structural reformspromoting self-reliance without isolating from globalization. While challenges persist in balancing geopolitical diplomacy and trade assertiveness, India's adaptive framework demonstrates how emerging economies can navigate protectionist shocks through innovation, fiscal prudence, and multilateral engagement. Future policy focus should consolidate these gains by deepening manufacturing ecosystems, sustaining fiscal discipline, and fostering regional trade networks that buffer against global uncertainties.

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