



## India and the World

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### **The India-US partnership under pressure**

Over the last decades New Delhi has gradually been shedding what Prime Minister Modi has called “the hesitations of history” to work much more closely with Washington. The US’ centrality today in India’s economic and security calculations has no historical precedent. It is India’s largest investment and export market, the destination for around 18% of India’s total merchandise exports. The Indian diaspora in the US numbers almost 5 million; 420,000 Indian students are enrolled in US higher education and nearly 70% of the H-1B visas for highly skilled workers or specialists approved in fiscal year 2024, went to Indians, mostly in the ICT sector. Strategic and defence cooperation has expanded significantly over the last decade. This positive trend was reinforced earlier this year, when Prime Minister Modi’s visit to the White House resulted in an ambitious plan to raise trade to \$500 billion by 2030, coupled with pledges of large acquisitions in US energy and defence platforms.

It came as a shock to New Delhi, therefore, when President Donald Trump imposed the highest of his tariff rates so far on Indian goods. On August 27, the effective tariff rate on all products from India became 50%. This is composed of the original 25% tariff rate, effective from August 7, followed by an additional 25% that Trump said was in retaliation for the country’s import of crude oil from Russia. Some key sectors for India, such as pharmaceuticals, electronics and energy, are exempted. But the tariffs, if sustained over time, will certainly have a visibly negative impact on India’s economy. Current headwinds in the Indian economy risk being accelerated as the tariff policy, in itself, according to some estimates, could reduce India’s annual growth rate by between 0.5 and 0.8 percentage points.

The exact economic impact of India redirecting its purchases of crude oil to US sources, as the Trump administration would prefer, are uncertain. Some of the additional cost may be borne by

Indian producers or consumers who operate on small or nonexistent margins. Given the proportion of Indian refined petroleum products that are exported, there might also be unpredictable shifts in the global price of oil.

On the other hand, if the tariffs continue over time, the long-term effect of US firms turning to alternative sourcing locations in sectors such as textiles could be severe. India is less vulnerable to reduced exports than some of its Asian peers, but specific labour-intensive sectors such as jewellery, leather and textiles are more exposed than others.

One additional concern is that a broader breakdown in economic relations will introduce major uncertainties into the previously strong US-India technology alliance, particularly in areas like AI, quantum computing, and semiconductors. Innovation ecosystems in both countries would weaken if joint R&D in sensitive areas is exposed to tighter export controls and bureaucratic hurdles. India might need to diversify tech partnerships, invest much more heavily in domestic R&D, and reduce reliance on US collaboration.

The question is whether President Trump's trade policy reflects a long-term shift in US policy towards India, or is merely a short-term coercive instrument. Has commitment to India as a strategic partner over the next decades in the Indo-Pacific declined? Or are tariffs just a way to negotiate passing imbalances in the bilateral economic partnership? Certainty builds trust; uncertainty dissolves it. The biggest casualty of Trump's inclination to weaponize economic flows to achieve US economic policy goals could therefore be India's trust in the partnership with the US. This, in turn, could have larger geopolitical implications.

Prime Minister Modi has avoided directly mentioning the tariffs. He has, however, begun to highlight recently that he will never compromise on the interests of India's marginal farmers and small producers, no matter how much pressure is placed on him. This is a reference, presumably, to the broader demands from Trump that India lower its own tariff walls, particularly on agriculture.

Whether the additional 25% Russia-related tariff makes India less likely to continue imports from Russia is less certain. Indian officials have sent out mixed signals. A recent visit to Moscow by India's Minister for External Affairs S Jaishankar, ahead of a planned summit between PM Modi and President Putin, seems to suggest raised ambitions in trade.

However, lines of communication remain open with Washington. Many in the bureaucracy are working to insulate other channels of cooperation from trade-related frictions. Foreign Secretary Vikram Misri has told the Indian Parliament's Standing Committee on External Affairs that trade is just one aspect of the bilateral relationship, and defence cooperation between India and the US has not been halted.

Yet, clearly, New Delhi feels singled out by the punitive measures levied by President Trump. Without naming Trump, India's Ministry for External Affairs described in a statement the new tariffs imposed by the US as unfair, unjustified and unreasonable. The same statement attempted to show the extent to which the West continues to trade with Russia, while sanctioning others for doing so. While the volume of US-Russia trade was referenced, a larger part of the statement was in fact dedicated to the ongoing trade between the EU and Russia. The EU risks being drafted into this conflict by either side; New Delhi may see it as hypocritically escaping US condemnation that India suffers, while US officials have indicated that they want the EU to impose Russia-related penalty tariffs on India similar to its own.

Speculations on why India has been handled more harshly than other Asian countries have diverged. Some observers have pointed out that Trump has always viewed India as having uniquely high barriers to market access for US companies. This attitude is held more strongly than previous US administrations, but is not completely out of line with previous complaints, either.

This president differs, however, in that a significant proportion of his foreign policy is shaped through a personal and transactional lens. In recent weeks, reports have emerged of various ways in which Trump might have been disappointed in India over the past year – including in Modi's unwillingness to meet him when he was a candidate last year, the country's objection to his claim to have brokered

an end to hostilities with Pakistan, and its unwillingness to join Pakistan in nominating him for a Nobel Peace Prize. PM Modi, who also prizes personal diplomacy, may be similarly disappointed. He had to avoid a trip to Washington after the Canada G-7 summit, possibly to ensure that he would not be ambushed into taking a photograph with the Pakistani military chief, who was due to have lunch with Trump on the same day; a 35-minute phone call in June between the two leaders was apparently unusually tense; and the Frankfurter Allgemeine Zeitung has reported that Modi has avoided four phone calls from the US president in recent weeks as the relationship has deteriorated.

New Delhi is more worried that the breach in relations reflects a deeper divergence – one that might outlast the personalities involved. There is certainly an emerging strand of thinking in Washington that questions the utility of support for India's rise, and whether it would indeed play to the benefit of the US in its strategic competition with China. India remains a generation behind China in economic, technological and military capabilities. If it is to converge to China economically by 2050, India will need close to double-digit growth while China will have to slow to around 2 to 3%.

The deeper fear in India is that the US will seek a broader "grand bargain" with China. It is not entirely clear how the Trump administration's China policy will unfold. But the president has shown himself amenable to deal-making; he respects strength; and is a believer in "spheres of influence". Some in New Delhi fear a retreating, inward-looking US will consent to the emergence of a new G-2, in which India is left in China's sphere of influence. Whether or not this a likely prospect is besides the point; it is considered worrying enough to ensure that "the hesitations of history" are now once again part of the US-India relationship.

New Delhi will now most likely work quietly to restart trade discussions, and gradually reduce levels of imports of Russian oil, expand energy cooperation with the US, and simultaneously, look to further intensify its economic cooperation with other partners. Seen from a European perspective, current flux might offer possibilities, especially in trade and technology domains. While there are gestures towards less hostility in the India-China relationship, as well as political reassurances for Russia, India's trade with BRICS core countries remains largely focused on low-end manufacturing, energy and raw materials and very little value-added products.



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