Managing U.S. Sanctions and Tariffs: Why India's Strategy Works

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The United States and India have built one of the world's most consequential strategic partnerships, yet their economic relationship periodically absorbs shocks from sanctions risks and tariff measures. In 2018 the United States used Section 232 of the Trade Expansion Act to apply a **25 percent tariff on steel** (and 10 percent on aluminum) imports from most countries, including India, prompting calibrated Indian retaliation and a multi-year effort to restore normal trade flows. In 2019, Washington terminated India's Generalized System of Preferences (GSP) benefits, removing zero-duty access for billions of dollars of Indian exports. More recently, in **August 2025**, U.S. authorities announced an **additional 25 percent punitive tariff** on a large share of Indian merchandise exports, widely framed in media and market guidance as a "secondary" layer taking the combined levy on affected lines to **around 50 percent**. This paper examines the mechanics of these measures, the channels through which they affect the Indian economy, the policy options available to New Delhi, and why India's current strategy of asserting strategic autonomy while keeping economic channels open is the right course.

It is important to separate three distinct instruments that are often conflated in public debate. First, *tariffs* (such as Section 232 duties on steel) are taxes on imports collected at the border. Second, *trade preference decisions* (such as the 2019 removal of India from GSP) change the baseline tariff rate applied to a partner's goods without being a "sanction" per se. Third, *sanctions* like those authorized under the Countering America's Adversaries Through Sanctions Act (CAATSA) can be primary (restricting U.S. persons) or secondary (threatening restrictions on non-U.S. persons who engage in specified transactions), and although they do not legally function as a tax, they can raise the effective cost of trade and finance by blocking access to U.S. capital markets, clearing, technology, or procurement. When a new **25 percent punitive tariff** is layered on top of an existing **25 percent tariff** (e.g., for steel), traders experience a headline **50 percent border tax**, while any secondary sanctions exposure can further elevate the landing cost via risk premia, diversion, and compliance expenses. Understanding these distinctions clarifies both the economic impact and the logic behind India's response.

Historical anchors and recent developments: India's experience with U.S. restrictions dates back decades, most notably to after the 1998 nuclear tests, when broad sanctions curtailed defense trade and finance. Those measures were lifted as the relationship normalized, culminating in the 2005-08 civil nuclear agreement. In the modern trade era, however, the pivotal shock came in 2018 with **Section 232 tariffs**: 25 percent on steel and 10 percent on aluminum. India initially held retaliation in abeyance while pursuing consultations, then imposed calibrated duties on selected U.S. products. In 2019, the U.S. **terminated India's GSP status**, effectively raising average applied tariffs on thousands of Indian lines to the normal most favored nation (MFN) rate. In July 2023, both governments took steps to unwind tit-for-tat measures. India withdrew retaliatory tariffs on certain agricultural goods, signaling that trade irritants were being compartmentalized even as strategic ties deepened.

In August 2025, the administration in Washington announced a new 25 percent tariff on a large basket of Indian exports alongside rhetoric linking India's energy purchases from Russia to broader U.S. sanctions policy, reviving concerns about supply chain costs, export profitability, and sectoral competitiveness.

The data picture: According to U.S. sources, two-way trade in goods and services reached roughly **$212 billion in 2024**, with the goods component around **$129 billion**. India remains among the top ten U.S. trading partners. On the macro side, the **IMF's July 2025** World Economic Outlook update projects India's real GDP growth at around **6.4 percent** in 2025 and 2026, underscoring a resilient domestic growth engine even amid global trade frictions. From an Indian perspective, exposure to the United States is significant in sectors such as pharmaceuticals, machinery, organic chemicals, iron and steel, and services (IT BPM, professional services). A **50 percent combined tariff** on affected lines materially affects *price-to-land* calculations, yet the aggregate macro hit is cushioned by three offsetters: (i) (i) strong services exports and remittances, (ii) market diversification in goods (EU, Middle East, ASEAN), and (iii) steady domestic demand.

Channels of economic impact: The most immediate effect of a border tariff shock is a squeeze on exporter margins. Where Indian firms have pricing power, e.g., niche pharma formulations or specialized engineering products, some of the tariff can be passed through to U.S. buyers; where demand is elastic, orders may shift to third countries. Second, tariffs and sanctions risks raise *working capital costs* through higher bank compliance overheads, extended payment cycles, and insurance premiums. Third, technology-intensive firms face heightened uncertainty over export controls and licensing for dual-use inputs, slowing investment in sensitive supply chains (semiconductors, advanced electronics, and select defense items). Fourth, in metals specifically, a **50 percent** border levy can distort flows: mills may pivot toward non-U.S. markets or emphasize value-added downstream products less exposed to tariff lines. Finally, the signal effect of sanctions rhetoric can deter U.S. institutional investors from new exposure even if legal thresholds for sanctions have not been crossed, tightening risk appetite until clarity emerges.

Case studies and precedents: Three episodes illustrate both vulnerability and resilience. First, the **2018 Section 232** tariffs: after an initial dip and diversion, Indian steelmakers reoriented to alternative markets and deepened domestic value addition; some also leveraged exclusions and niche grades. Second, the **2019 GSP withdrawal**: while a set of labor-intensive exports (e.g., certain leather goods) lost duty-free status, firms competed on non-price factors (quality, delivery, compliance) and leaned on other preference schemes in third markets. Third, the **CAATSA S-400** episode: India completed acquisition of the Russian air defense system while maintaining intensive diplomatic dialogue with Washington; U.S. lawmakers publicly debated waivers on national security grounds, and ultimately, the harshest sanctions were avoided. The through line is clear: when India pairs strategic clarity with patient, high-level engagement, escalation can be contained and economic fallout managed.

Why is the current approach correct?India's strategy rests on four pillars. The first is *strategic autonomy*: policy choices, especially defense and energy security, are made on national interest calculus, not alignment pressure. The second is *active diplomacy*: the 2+2 ministerial, commercial dialogues, and working groups provide off-ramps before measures harden into sustained restrictions. The third is *economic diversification*: fast-growing trade with the EU, GCC partners, Africa, and Southeast Asia reduces concentration risk and strengthens India's bargaining position. The fourth is *domestic capacity*: the Production Linked Incentive schemes, logistics reforms under PM Gati Shakti, and an accelerating clean energy build-out reduce vulnerability to choke points in foreign technology and inputs. Together, these pillars explain why India's growth outlook remains among the world's strongest even as tariff headwinds recur.

Policy design for a high-tariff world: Even if a portion of the August 2025 tariff package is temporary or negotiated down, Indian policy should assume that episodes of *elevated border taxes* and *secondary sanctions* noise will recur. Three design choices can minimize damage. First, prioritize *supplier and market redundancy* in any sector exposed to U.S. tariff levers; multiple customer bases, flexible contracting, and hedged logistics reduce the pass-through of a 50 percent levy to profits. Second, expand *financial plumbing* resilience: wider use of INR and AED denominated trade settlement where feasible, access to European and Asian lenders less sensitive to U.S. political cycles, and industry-wide compliance utilities that lower due diligence costs for MSME exporters. Third, keep investing in standards and IP: the more Indian products compete on certification, safety, reliability, and design rather than pure price, the less leverage a tariff shock has over order books.

Sectoral lens: In *metals*, a combined 50 percent tariff makes direct sales into the U.S. uneconomic for commodity grades, but specialty steels can still clear if buyers value certifications and traceability; some mills may pivot to Europe, the Middle East, or

ASEAN, where spreads remain attractive. In *pharmaceuticals*, tariffs are less material than FDA approvals and supply reliability; still, compliance costs rise if financing channels narrow. In *electronics and semiconductors*, U.S. export control scrutiny matters more than tariffs; India's push to localize assembly and design and to attract allied country fabs directly mitigates this. In *services*, secondary sanctions fears could temporarily slow new U.S. contracts, but the sector's value proposition, talent density, and cost remain strong; moreover, services exports are less tariff exposed and continue to support India's current account. Agriculture is mixed: specific lines that previously benefited from GSP saw duty increases in 2019, but 2023's mutual rollback on certain items showed that narrow disputes can be de-escalated with targeted deals.

Quantifying exposure and macro resilience: Suppose 55 percent of Indian merchandise exports to the U.S. are covered by the new 25 percent punitive tariff, and a fifth of those also overlap with existing 25 percent Section 232 lines (e.g., steel). If the average pre-tariff margin on these products is 12-15 percent, the immediate *border tax gap* on overlapping lines makes status quo pricing untenable; firms either exit, reroute, or renegotiate contracts. Yet at the macro level, India's growth impulse in FY 2025-26 is driven primarily by domestic investment, government capex, and services exports; the *IMF's 6.4 percent* projection internalizes global trade frictions and still places India as the fastest-growing major economy. The hit is therefore *sectorally sharp but macro manageable*, especially if trade diversion toward non-U.S. markets accelerates and services continue to outperform.

International law and coalition management: Tariffs justified on national security grounds (Section 232) occupy contested legal terrain at the World Trade Organization, where dispute panels have previously ruled against overly broad invocations of security exceptions. However, remedies are slow, and realpolitik often prevails. India's most effective lever has been *coalition diplomacy*: working with partners in the G20, engaging the EU on mutual recognition of standards, and using bilateral channels with Washington to carve out exclusions or staged rollbacks. This playbook worked in 2023 when retaliatory duties were lifted on select items, and it is applicable again in 2025.

Finance and secondary sanctions risk: Unlike tariffs, secondary sanctions are not a tax but a *denial of access* to U.S. banks, dollar clearing, export licenses, or government procurement. They create an "implicit levy" by forcing firms to change counterparties, repaper contracts, or accept worse pricing. India's banking system has upgraded sanctions screening and KYC processes to reduce inadvertent exposure, while large corporations increasingly build parallel payment channels through non-U.S. banks for transactions touching sanctioned geographies. The key is segmentation: keeping sensitive flows ring-fenced so that mainstream U.S.-facing exports remain untainted.

This is precisely what Indian firms and regulators have done since 2022 amidst Russia-related global sanctions turbulence.

Conclusion: Tariffs and sanctions risks will remain a recurring feature of the global landscape. India's current approach of guarding strategic autonomy, engaging the United States intensively, diversifying markets, and investing in domestic capacity is not only prudent but also demonstrably effective. The data show that despite tariff shocks, the overall economic relationship remains large and growing, macro growth prospects are intact, and targeted sectoral support and diplomacy can contain damage. In short, India is dealing with the challenge in the right way, and the policy trajectory should continue on this balanced path while sharpening tools for a high-tariff world.

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