



ANALYSING TRUMP'S 50% TARIFF

**MSME ECONOMIC DISRUPTION AND INDIA'S POLICY
RESPONSE**





INTRODUCTION

In August 2025, the United States imposed a 50% tariff rate on India, the highest among its trading partners, fundamentally disrupting India's export-oriented economy, particularly for micro, small, and medium enterprises (MSMEs). What began as President Donald Trump's 25% reciprocal tariff announcement doubled to 50%, with the White House framing the move in part as a penalty for India's continued purchases of Russian oil. The Global Trade Research Initiative (GTRI) projects that out of the total US exports of \$86.5 billion, roughly \$60.2 billion (66%) are likely to be impacted. Considering that the US is India's largest trading partner, these tariffs can lead to an immediate crisis for MSME sectors, particularly textiles, gems and jewellery, and chemicals, which account for roughly 45.73% of India's exports and employ millions of people.

This article explores both the economic impact and implications for India's manufacturing sector and the livelihoods of millions of people who rely on it, as well as New Delhi's strategic policy response and measures, to determine whether this trade action will serve as a catalyst for economic diversification or a prolonged period of industry decline.

BRIEF TARIFF OVERVIEW BETWEEN THE US AND INDIA

The US tariff escalation began with an initial 25% reciprocal tariff on India, which was followed by an announcement by President Trump to double it (bringing the total to 50%) as a punishment for "directly or indirectly importing Russian oil and funding the Ukraine invasion", effective August 27. The Trump administration justified this as a punishment for "directly or indirectly importing Russian crude oil and funding the Ukraine invasion". New Delhi has repeatedly challenged this move by calling it "unfair, unjustified and unreasonable", underlining the hypocrisy by citing the continued Russian energy purchases by the US and the European Union. The selective attack of these tariffs against India has been described as geopolitically motivated, designed to pressure India's foreign policy alignment rather than legitimate trade concerns; yet, the economic implications are likely to damage India's manufacturing base. According to the CRISIL Intelligence Report, sectors like textiles and apparel, gems and jewellery, furniture, and chemicals are likely to be the most hit, and with MSMEs having more than 70% share in these sectors, the



cascading effects can be witnessed across other industries and manufacturing clusters. Notably, some industries are still exempt from these tariffs, including electronics, pharmaceuticals, and certain energy commodities.

Sectoral & MSMEs Economic Impact Analysis

Textiles and Apparel:

MSMEs account for more than 70% of the exports in the textiles and apparel sector, supporting millions of jobs in states such as Tamil Nadu, Karnataka, and Gujarat. Due to extreme uncompetitiveness against countries like Bangladesh and Vietnam, which face far lower tariffs than India, export-oriented textile MSMEs, particularly cotton garments, are likely to see immediate cancellations of orders. According to ICRA, the sector will face 6-9% revenue loss, as well as operational delays and layoffs.

Gems and Jewellery:

MSMEs dominate the diamond polishing and jewellery manufacturing industries in India and rely heavily on exports to the US. About 30.28% (\$9.95 billion) of India's gems and jewellery exports went to the US alone in FY 2025, making it very vulnerable to the tariffs. The impact goes beyond large exporters to thousands of small-scale artisans in regions like Surat, which contributes about 32% of total diamond exports.

Chemical and Industrial Components:

The chemical sector, particularly speciality chemicals and industrial inputs used in agriculture, continues to account for over 40% participation from MSMEs. The effects on domestic suppliers are magnified by the sector's integration into global chains, and such high tariffs may result in large losses due to price disadvantages against Japan and South Korea. A growth recession may lead to long-term disruptions to manufacturing ecosystems.

Beyond the numbers, the human costs, such as the loss of livelihood, are a greater concern. About 22.77 crore (registered) workers are employed by MSMEs in India, and the tariffs pose a serious threat to job displacement, particularly in regional manufacturing clusters like Tiruppur (textiles), Surat (diamonds), and Ludhiana (garments). Over 2 million jobs are estimated to be at immediate risk, especially in the informal sector, which does not have proper social security schemes.



Policy Response & Measures by New Delhi

Recognising the gravity of this economic crisis, New Delhi has implemented a series of measures and policy shifts. The Indian government is finalising a financial package of approximately ₹2,200 crore, combining credit guarantees and targeted relief schemes to help industries affected by these tariffs. Strategic efforts such as working capital support and export promotion schemes are also being considered, with the goal of providing liquidity support to affected MSMEs.

Trade diplomacy and market diversification initiatives in European, Middle Eastern and ASEAN countries, as well as the ongoing Free Trade Agreement (FTA) with the EU, are also being fast-tracked to cushion and alleviate the impact of US market losses. Support measures worth **₹25,000 crore under the Export Promotion Mission (EPM)** in the Union Budget 2025-26, which focuses on providing ease to exporters, enabling sustainable growth and also building adequate trade infrastructure.

Efforts are being made to make India self-reliant, with Prime Minister Narendra Modi appealing to Indians to prioritise buying domestically produced goods. India is also warming up to its neighbour, China, as evidenced by Modi's visit to the Shanghai Cooperation Organisation summit this year, as a part of a strategic geopolitical shift away from the US.

However, implementation challenges remain severe. Liquidity and credit guarantees may provide some relief in the short term, but they will not restore the economic competitiveness lost to the 50% tariffs. Exports account for over 21.2% of India's GDP, and MSMEs form the backbone of these industries. The effectiveness of these measures strongly depends on the ability to maintain export viability in alternative markets and long-term continued policy support by the government.

Conclusion

The 50% tariff shock causes severe external disruption for India's MSMEs and the livelihoods they support. Research indicates enormous revenue losses and potential loss of millions of livelihoods, particularly in the textiles and apparel export sectors. The government is considering market diversification efforts; nevertheless, replacing US demand will require both short-term alleviation and long-term structural changes to India's export model. The immediate priority should involve preventing permanent damage to India's manufacturing ecosystem while also boosting MSMEs to be more robust and globally competitive against any such trade shocks in the future.

As of September 2025, diplomatic negotiations and trade talks are ongoing, and as confirmed by the Commerce Minister Piyush Goyal, the first tranche of a bilateral



trade agreement should be finalised by November this year between the two economic giants.

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