Trade Tensions in Agriculture: The Impact of India's Agriculture Protectionist Policies on U.S Tariffs

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Open Access

Manuscript ID:
BIJ-SPL3-Dec25-ECO-033

Subject: Economics

Received : 20.08.2025
Accepted : 25.08.2025
Published : 31.12.2025

DOI: 10.64938/bijsi.v10si3.25.Dec033

Abstract

The study looks into the role of India's agricultural protectionist policies in forming trade frictions with the United States. India, with a high number of small and marginal farmers, has for a long time adopted protectionist policies to safeguard its farmers, food security and rural livelihood. This has triggered the U.S., as Indian agricultural products are taxed at a very low rate in international markets. India has a dualist tariff network for their agricultural and non-agricultural products. India has the highest tariff framework for agricultural products, ranging between 38% to 39% and a very low tariff framework for non-agricultural products, which is around 13%, and all these have led to the U.S in imposing retaliatory tariffs on Indian goods.

Keywords: agricultural protectionism, retaliatory tariff, trade tensions, import tariffs

Introduction

Global trade relations between countries are highly influenced by domestic policy frameworks. In the case of India-U.S. economic and trade relations, the domestic interests of India to protect its agricultural sector and farmers have emerged as a critical point of tension. India, being a country with a very large agricultural sector and lakhs of small farmers, has historically adopted a protectionist stand towards agriculture. The main reason behind the policy is to ensure domestic food security, rural livelihood sustainability and political stability. But in the current liberalisation era, where one country's market functions with another country's market, it is very difficult to hold on to such domestic protectionist policies, especially with a major trade partner like the U.S.

The U.S., being a country with a highly export-oriented and industrialised agriculture sector, has repeatedly raised concerns over the years about the high tariff and non-tariff barriers that restrict their farm products from reaching the Indian markets. The high tax rates that India has established for products like dairy, almonds, oilseeds, pulses, etc, have brought in disapproval at bilateral trade and at the World Trade Organisation, but according to India, these higher tariff rates are very necessary to protect its vulnerable domestic farmers, whose products will

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E-ISSN: 2456-5571

be easily substituted by imported items which will reach the Indian market at a cheaper price also. With respect to other developing countries who has their own agricultural protection policies, the tariff rates imposed by India are very high. The agricultural protectionist policies implemented have reached a point where it is a domestic necessity and also a reason for international dispute.

The Significance of Agriculture and Protectionism in India's Economic Framework

Agriculture plays a vital role in India's economic and social scenarios. Even though the sector shares only less than 18% of the country's Gross Value Added, it still provides employment to more than 40% of India’s total workforce. Agriculture continues to be the main source of livelihood for a large section of the Indian population. The agriculture sector in India consists of small and marginal landholdings, which generate low productivity and are highly dependent on monsoons. As rural votes constitute a major share of the electoral outcome, the sector is very crucial in the economic policy framework of the country. The sector being very vulnerable, the role of the government in providing a minimum support price, subsidies for fertilisers, irrigation, electricity and keeping the import tariffs high is very crucial. These policies are aimed at protecting the farmers' income, protecting domestic products from international price volatility and maintaining national food security. But the above-mentioned protectionism policies of the government lead to international trade disagreements.

Agricultural protectionism generally consists of a broad range of policy tools; it includes subsidies, tariff and non-tariff barriers, technical barriers to trade, import quotas, sanitary and phytosanitary measures, etc. Tariff is the most prevalent and visible mode of agricultural protectionism in India. The average bound tariff imposed by India on agricultural products at the WTO is 113.5% and the applied tariff is around 38.8%. The import tariffs imposed by the U.S on agricultural products are much lower than the rates imposed by India. The visible gap between the bound tariff and the applied tariff gives India the freedom to increase the tariff with respect to global and domestic fluctuations. This freedom has often been exercised by the country when there is an increase in imports, during global price fluctuations, farmer’s unrest, etc. For example, India has maintained a high tariff on the import of dairy products to protect India's milk cooperative structure and traditional productive system. From a domestic viewpoint, these policies portray a policy strategy to protect the country's large number of vulnerable farmers, but from a global perspective, these policies disrupt fair competition and easy market access.

From an economic standpoint, India’s agricultural policy is designed to achieve multiple goals like stabilising prices, food security, protecting domestic farmers and protecting domestic employment. Similar to the budding industry market in the country, which is often protected by the domestic industry protection policies, the vulnerable agriculture sector also needs protection from global competitors to grow and develop. Moreover, the Indian agriculture industry is highly influenced by external price shocks. If import tariffs are not present, cheaper agricultural imports can flood the Indian market and cause price volatility and rural distress, which can further lead to a political explosion. The higher import tariffs imposed by India act as an automatic stabiliser, which allows the government to adjust to continuous global price changes without changing the price of products often. These policies are very necessary to protect the vulnerable rural farmers of the country.

U.S Agriculture Exports to Indian: Patterns, Growth and Market Insights

India is a major export destination for the U.S, ranking 12th among all the international markets in 2024. According to the U.S. Department of Foreign Agricultural Services (FAS), the agricultural export from the U.S to India has reached around \$2.27 billion in 2024. The expansion is mainly due to the increasing consumer demand, and also due to certain U.S products which gained market access after years of tariff-related tensions. In 2021, U.S was the 5th largest agriculture export partner to India, just behind

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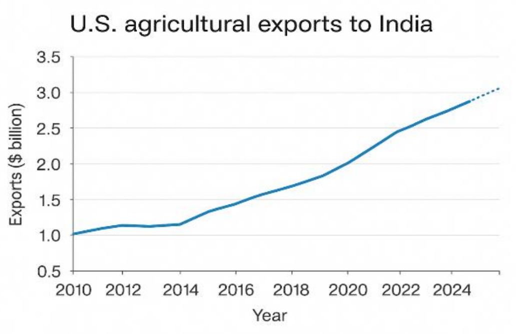
E-ISSN: 2456-5571

its long-term regional export partners like Malaysia and Indonesia, this shows the constant trade relations between India and the U.S despite tariff tensions.

Tree nuts are the highest exported commodity to India by the U.S. In 2024 U.S exported around $1.12 billion worth of tree nuts to India, and this accounted for nearly half the total export of that year. Another highly imported product is almonds, which account for $834 million, followed by pistachios and walnuts, which account for $145 million and $24 million, respectively. These exports majorly satisfy the growing demand of the urban middle and upper-class people, whose demand is majorly driven by an increase in disposable income and urban dietary shifts. Another major export product from the U.S to India is industrial-use-ethanol which accounts for $441 million in 2024. This product is mainly used by the Indian pharmaceutical, chemical and disinfectant industries. Cotton is also highly imported by India from the U.S in 2024, India imported $210 million worth of cotton from the U.S. India has one of the largest textile industries in the world and it relies majorly on the U.S for high-quality cotton to produce premium fabrics. But cotton imports are reduced by higher tariffs imposed by the government when there is strong domestic production. Several other products are also imported by India from the U.S, it includes pulses such as chickpeas and lentils, which account for $73 million in 2024.

The increase in agricultural exports to India is influenced by several factors. The rising income of the urban population in India has boosted the demand for imported premium products, the expansion of retail infrastructure and e-commerce has increased distribution channels, etc. However, the higher dependence on the U.S for tree nuts and ethanol can also generate risks. Sudden tariff increase in these products, decreasing demand for these products due to change in consumer's taste and preferences, increase in domestic production of such products, etc, can affect trade flows. Currently, the U.S faces the challenge of balancing its trade in premium and industrial agricultural goods with diversifying its product base in India. For the U.S, India remains an important and complex trade partner.



Methodology

The study follows a comparative and descriptive analysis to understand India's tariff framework and its implications on India-U.S. trade relations. The study mainly uses secondary data collected from trade databases, publications, newspapers and other secondary sources.

Objectives

1. To understand the variations in import tariffs across different countries.
2. To study the differential import tariff structure practiced for agricultural and non-agricultural products.
3. To analyse the impact of India's tariff policies on the U.S retaliatory tariff and trade disputes.

Interpretation and Discussion

The chapter mainly discusses about the analysis of tariff structure, policy dynamics and trade patterns. The major motive is to analyse how the differences in import tariffs across various countries, especially India's different tariff structure on agriculture and non-agriculture products, lead to shaping international trade relations. The major focus is on the understanding of the agricultural protectionism policies implemented by India and their effect on the U.S. retaliatory tariffs and trade disagreements.

Understanding Variations in Import Tariffs across Different Countries.

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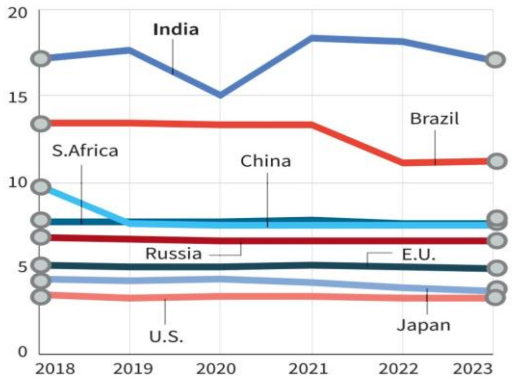
E-ISSN: 2456-5571



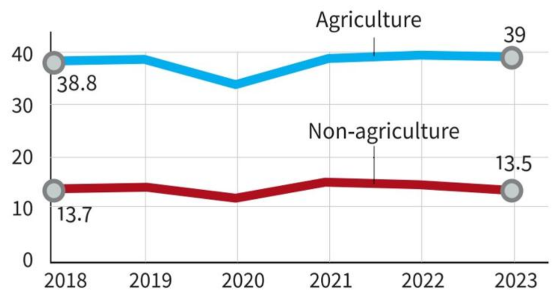
The above graph shows the average import tariffs levied by major economies, and it shows major differences in cross-country deviations in tariff structure designed for protectionism. India has continuously implemented the highest tariff level among the above countries, varying between 15% and 18% during 2018- 2023, with a small downturn in 2020, but later in 2021 the tariff levels returned to the previous levels. This affirms that India uses tariff structure as an instrument to protect its vulnerable sections, such as agriculture. This makes India one of the most protectionist economies within the international trade network.

South Africa and Brazil occupy the second position in implementing high tariffs. Brazil's tariff duties have shown a downturn in 2021, moving towards 11% to 12% by 2023. South Africa, on the other hand, has shown a greater consistency in implementing higher tariffs reflecting their protectionist stance. Compared to India and Brazil, China has a lower tariff structure, but has higher tariff levels than other major economies like Russia, E.U, Japan, etc.

By contrast, advanced economies like the U.S, the European Union, and Japan have a much lower tariff network, ranging between 2% to 5%. These low tariffs reveal their long-term commitment towards trade liberalisation under the international trade agreements. The U.S tariff framework has remained very stable over the years at 2% to 3% making it relatively an open economy. The European Union also shows similar patterns by keeping its tariff rates below 5% continuously. Both Japan and the U.S maintain a low tariff network showcasing their liberalised import system. Russia has tariff rates above the U.S, Japan and the European Union, but its tariff rates are very modest at 6% to 7% over the years, showcasing a middle ground between protectionism and liberalism.

To sum up, it is evident that emerging economies like India, Brazil, South Africa and to an extent China have higher tariffs and much more protectionist policies to safeguard their vulnerable sections, while developed economies like the U.S and the European Union have a lower tariff network. This difference between developed economies and developing economies in tariff networks becomes an area of dispute in international trade, and India's consistent high tariff structure stands as a centre of dispute in agricultural trade between India and the U.S.

Differential Import Tariff Structure Practiced for Agriculture and Non-Agriculture Products.



The chart clearly depicts the large difference between the tariffs imposed on agricultural and non-agricultural products by India during the period 2018- 2023. Agricultural products have continuously faced high tariffs, showing India's commitment to protect its domestic farmers. The average import tariff on agricultural products has stayed between 38% to 39% over the years, and the tariffs on non-agricultural products have remained at a lower range of around 13%. This reveals India's dual approach to the tariff framework, where agriculture is considered as a vulnerable sector needing a higher level of protectionism; on the other hand non-agricultural sector is considerably kept open to encourage

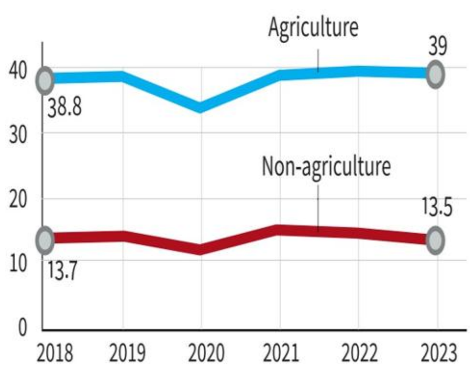
Vol. 10 Special Issue 3 December 2025
E-ISSN: 2456-5571

industrial growth. Agricultural tariffs were at 38.8% in 2018, followed by a minor downturn to 34% in 2020 and increased back to 39% in 2020. The non-agricultural products were taxed at 13.7% in 2018, followed by a downturn to 12% in 2020 and later increased back to 13.5% in 2023.

The constant gap of more than 20% between agricultural and non-agricultural products shows the highly different tariff structure imposed by India. Agriculture is treated as a highly protected sector, while the non-agricultural sector is treated more liberally to encourage exports, which will help Indian industries reach a global level.

Impact of India's tariff policies on the U.S retaliatory tariff and trade disputes.

	2018	2023
Beverages and tobacco	74.7	74.5
Oilseeds, fats and oils	54.1	60.1
Sugars and confectionery	51.5	51.5
Coffee, tea	56.3	47.6
Cereals and preparations	37.1	37.8
Dairy products	34.8	35.2
Fruits, vegetables, plants	32.4	34.6
Animal products	32.5	32.5
Fish and fish products	30	30
Transport equipment	31.1	28.2
Other agricultural products	29	28.1
Clothing	20.5	20.7
Textiles	20.7	16
Leather, footwear, etc	12.1	15.1
Manufactures n.e.s.	11.1	12.4
Minerals and metals	11	11.9
Electrical machinery	8.8	11.2
Wood, paper, etc	10	10.6
Chemicals	10.2	10.3
Cotton	26	9.4
Petroleum	9.2	9.2
Non-electrical machinery	7.8	7.9



Over the period of 2018 to 2023, India's tariff structure shows a high difference in the tariffs imposed for agricultural and non-agricultural products. Agricultural goods have been taxed as high as 39% compared to non-agricultural goods, which are taxed as low as 13%. This clearly shows India's protectionist stand for its farmers and its motive to encourage industrial growth.

The category-wise breakdown shows that agricultural products are exposed to high tariffs, like tobacco- 74.5%, sugars- 51.5%, oilseeds and edible oils- 60.1%, dairy products- 35.2%, coffee/tea- 47.6%, cereals- 37.8%, etc. These tariff rates are three times higher than the tariff rates on manufactured goods, and non-agricultural products are taxed between 8% to 15% only. Minerals and metals- 11.9%, electrical machinery- 11.2%, chemicals- 10.3%, petroleum- 9.2%, textiles and leather/footwear face comparatively higher tariff rates of 16% and 15.1%.

When compared with global tariff rates, the rates imposed by India are very high. According to the USDA Economic Research Service, the average global tariff on agricultural imports is around 10%, with 15% being the maximum tariff imposed in most regions. India's tariff structure is two times more than the international benchmark. These higher rates are mainly responsible for the U.S to impose retaliatory tariffs on India.

Conclusion

The tariff network of the country shows a clear motive for protectionism in the agriculture sector, which has a significant impact on its international trade relations, especially with the U.S. While comparing India with other countries, India has a very high tariff structure compared to other economies like the European Union, Japan, China, etc. Even among the developing economies like Brazil and South Africa, India still has a higher tariff structure. This positions India in the middle of an international trade dispute. There is a clear dualism in India's tariff network itself; the country has a high tariff structure on agricultural products, ranging from around 40% and lower tariff rates on non-agricultural products, ranging from around 14%. The product division shows that India has high tariff rates on sensitive products like tobacco, oilseeds, sugars, etc, while manufactured products like machinery, chemicals and metals have lower tariffs. This high difference shows India's protectionist stand towards protecting its domestic farmers and at the same time encouraging industrialisation. This tariff structure implemented by India is the main reason for trade disagreements with the United States. U.S agriculture exports like dairy, oilseeds, processed food, etc, are taxed highly by India, while the same products exported by India face a very low tariff in global markets. In response to this, the U.S has imposed a retaliatory tariff on Indian products, saying that India's agricultural protectionism disrupts fair trade and liberal market access. This cycle of India's protectionism and the U.S retaliation has increased trade tensions between the countries.

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