Tariffs & Co.: India's Textile Challenge in the U.S. Market

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Impacts of Section 301 tariffs

On 23rd July, the United States Trade Representative (USTR) imposed 10-12.5% tariffs on 60 nations following the final determinations in Section 301 investigations under the Trade Act, effective from 24th July. These economies are targeted for failing to impose and effectively enforce a prohibition on the importation of goods produced with forced labor. This imposition comes in addition to Section 307 of the Tariff Act of 1930, which prohibits imports of goods manufactured wholly or in part using forced labor. India and 16 other countries are subject to a 10% tariff in addition to existing base tariffs on specific products, as they have foreign trade policies and laws that prohibit the import of goods produced using forced labor. The other 43 nations that do not have such systems in place incur a 12.5% tariff on top of baseline tariffs. On July 14, India amended its policy to prohibit the import of goods produced or manufactured using forced labor, using the ILO's definition of forced labor under the Forced Labor Convention, 1930. An estimated 45% of India's exports to the United States remain outside the purview of the additional 10% Section 301 duty. The products that remain outside the purview are those covered under Section 232 of the US Trade Expansion Act of 1962, as well as other products that currently attract zero tariffs, such as generic pharmaceuticals and electronics. The remaining 55% of exports will attract the additional 10% duty. India's textile exports to the USA are largely exposed to these tariffs. Its other Asian competitors in the American textile apparel market, Bangladesh, Cambodia, Indonesia and Malaysia, do fall under the same Section 301 tariff bracket but receive a competitive advantage due to USTR's announcement that Tariff Rate Quotas on 23rd July will be established for these 4 nations for an initial period of three years.

India's undermined competitiveness

The announced Tariff Rate Quota by USTR allows certain volumes of specified textile and apparel shipments from these 4 nations, made using US-origin cotton and fiber, to enter the U.S. free of the Section 301 duty. The objective of the TRQs is to encourage these economies to import U.S. textile goods and cotton. Under certain circumstances, such as the period before the establishment of the TRQ mechanism and its operation, and when the volume of products exported exceeds the quota threshold after establishment, imports from these four economies will face the additional 10% Section 301 tariff. The conditions of American input that are yet to be established can raise the production costs of these four nations, thereby reducing the net edge gained to less than the flat exemption. India's textile and apparel exports would be significantly affected, as its 4 major Asian competitors would not bear the burden of 10% tariffs alongside Most-Favored-Nation (MFN) tariff rates after the establishment of the TRQ.

The added cost of Section 301 tariffs and the MFN baseline tariff ranging from 0-32% across various textile goods would increase the retail price of Indian products, thereby making them an unattractive and less competitive alternative in American markets. A further examination of this case illustrates that apparel exports are significantly affected by these conditions.

India's exclusion from the TRQ could affect its ability to effectively sell textile apparel to the USA, as India's total textile export basket to the US is valued at 9.6 billion USD, of which 50% is constituted by the same. The nations that were granted TRQs by USTR primarily produce apparel, which dominates their textile export baskets. Figures from the Office of Textiles and Apparel (OTEXA) under the US Department of Commerce show that US retailers and brands imported garments worth US$77.62 billion globally in 2025. Of that total, Bangladesh supplied apparel valued at US$8.18 billion, consolidating its position as the third-largest apparel exporter to the US market for the year 2025. India was the fourth-largest garment exporter to the USA in 2025, with exports valued at $4.93 billion.

The domestic hurdles

The forecast heavy rainfall this year could impact India's cotton output. A press release issued by the Indian Ministry of Earth Sciences, along with the Indian Meteorological Department, on 30th July stated that agromet advisories for cotton and other kharif crops were issued to deal with the likely impact of heavy rainfall. The heavy rainfall could affect India's cotton output. The Indian Government on May 30th announced that import duties on cotton would be scrapped for five months, which was effective from June 1st and valid till October 1st. This announcement aims to boost the supply of contamination-free natural fiber for textile exporters amid strong overseas demand for yarn. Industry officials in an interview with Reuters stated that cotton is likely to be sourced from Australia, Brazil, the United States, and Africa. Purchasing imported cotton would not be feasible for Indian exporters as compared to the domestic alternative, despite a temporary zero-tariff, as the depreciating rupee value against the USD makes imported goods expensive to procure. The costlier inputs attributed to the use of imported cotton compress similar margins that the Section 301 tariffs are squeezing. The weakened INR against the USD makes imports an expensive affair, and this is partly attributed to India's increased imports of Crude oil to meet the nation's energy requirements.

The energy ripple effect

The current domestic political developments in the United States have increasingly created an unfavorable situation for India's trade with its single-largest buyer of textile goods.

On 28th July, the US Senate held a procedural vote to invoke cloture to advance the Lindsey O. Graham Sanctioning Russia Act of 2026, with 86 Senators in favor and 12 against advancing the bill. The bill grants the president the power to impose tariffs up to 100% on countries that largely import Russian crude oil and natural gas. Five countries, including India and China, have been identified as the largest importers of Russian Crude Oil. US Senator Richard Blumenthal, a co-sponsor of the bill, in a press conference on 28th July, stated that "the bill is carefully crafted to ensure the allies are not hit", and called India and China "the main culprits fuelling Russia's war machine by purchasing the vast majority of Russian oil and gas". India is the second-largest buyer of Russian Crude oil, absorbing around 36% of Russia's crude exports. As India's risk of being exposed to this tariff is mainly attributable to presidential discretion, an important variable determining its exposure would be the American administration's posture towards New Delhi at the time of the bill's enactment.

The 100% tariff on the top five buyers of Russian oil will be a blanket imposition and not sector-specific. Despite certain exceptions mentioned in the bill, India's overall export basket to the US cannot capitalize on the same. Section 113 of the bill exempts those countries from tariffs on imports of natural gas from Russia, provided that the volume bought is less than 15% of Russia's annual gas exports and that they have taken significant steps to reduce their imports of natural gas originating in the Russian Federation. India does not benefit from this exemption as its energy imports from Russia virtually lack natural gas. The bill treats Crude oil and Natural gas imports as separate categories, and the top 5 buyers of each of these categories are subsequently subject to the tariffs

Section 114 of the bill exempts the conduct or facilitation of transactions for the provision of agricultural commodities, food, medicines, and medical devices from tariffs, provided the country has agreements with the Ukrainian Government for humanitarian assistance. This exemption would not apply if the President of the United States determines that the agreement is being used to evade sanctions imposed by the USA, the UK, the EU, or the G7. Hence, under none of the mentioned exceptions are India's textile exports safeguarded.

The move forward

Indian Minister of Commerce and Industry, Piyush Goyal, in a press interview stated that the first tranche of the Bilateral Trade Agreement with the USA which was finalized on 3rd February will come into operation soon as the United States ensures a comparative advantage for India over its neighbouring countries, countries of ASEAN and other countries with which India competes since it was the basis of the finalized first tranche of the BTA. He further stated that once the basis is re-established, the BTA will be "ready up and above". The textile and apparel industry contributes 2.3% to the Indian GDP, 13% to industrial production, and 12% to exports. The Lindsey Graham Sanctioning Russia Act of 2026 would be a major threat to India’s exports to the USA. If India is granted a tariff rate quota, it would increase imports of American cotton and textiles, thereby adding further strain on the weakening INR. Therefore, safeguarding Indian textile exports hinges on several factors. A carve-out for India’s textile exports to the USA under the Bilateral Trade Agreement could ensure its competitiveness in American markets, placing India on par with its competitors. A sensitive diplomatic engagement with the United States, ensuring a positive posture towards New Delhi, is crucial to securing India’s textile exports and an effective, market-driven procurement of its energy requirements. These factors are essential to reduce or eliminate the likelihood of a large-scale negative impact on India’s textile exports to the USA from the probable enactment of the bill, in addition to the announced Section 301 tariffs and other domestic hurdles.