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When Trade Turns Bitter: Why Indian Agriculture Stands at the Frontline

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In a world already trying to balance fragile (tenuous) trade relations, the U.S. President Donald Trump's latest move has added fresh fuel to the fire. His Reciprocal Tax Policy, announced in August 2025, sent a clear and loud message to its trade partners: "Match our tariffs or pay the price." For Indian Agriculture, this is not just about money; it is about the everyday lives of the farmers who depend on these exports.

What is the Reciprocal Tax Policy?

The principle behind the policy is straightforward: if a country places higher tariffs on American goods, the United States will impose the same rates or even higher on the country's exports to the U.S. However, this appears to be fair in global trade. In practice, complex trade relationships, such as that between India and the U.S., can be far from balanced. For sectors like Indian Agriculture, the consequences of this policy can go beyond the trade figures, affecting competitiveness, livelihood and long standing market ties (Figure 1).

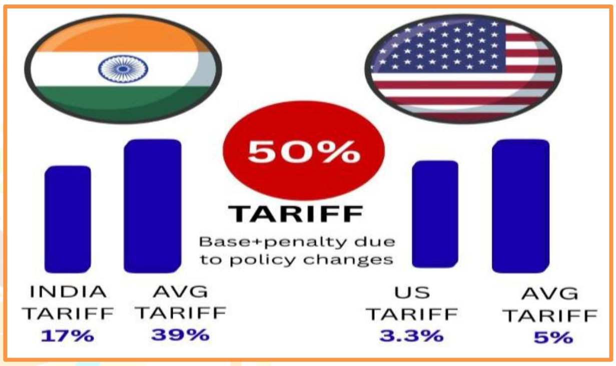

Figure 1. India-US Reciprocal Tariff Policy: Comparative Tariff Levels (Source: WTO, USTR, ICRIER 2025 Reports)

Why is this unfair?

India's high tariffs on U.S. farm goods are nothing new; they have existed for decades, mainly to protect small farmers from a flood of cheaper, heavily subsidized U.S. imports. Without them, products such as U.S. dairy, poultry, and pulses could undercut local prices and wipe out entire rural livelihoods. The problem is that the U.S. farms on a far bigger scale, with more mechanization and billions in subsidies, so "EQUAL" Tariffs do not create equal competition. India also depends more on agricultural exports, such as Basmati rice and shrimp, meaning that losing the U.S. market directly hurts rural income, while America sells far less here, so it feels less impact. In short, it is like two people agreeing to carry the same weight, but one is a trained weightlifter and the other is still learning to walk with the load. On paper, the rules are identical, but in practice, the advantage is heavily skewed towards the stronger competitor.

Why is Agriculture at the heart of this trade tension?

Agriculture sits at the heart of this tension because it is both economically and politically sensitive for India and the U.S. but for very different reasons. For India, farming is the primary livelihood for over 40% (approximately 200 million people) of the Indian population, and most farmers operate on small farms with thin profit margins. High tariffs on U.S. imports, such as 60% on dairy and 100% on poultry, have long acted as a protective shield, preventing a field of cheaper American agricultural goods that could crash domestic prices and destabilize rural incomes.

Table 1. Impact of US Tariff on Basmati rice prices compared to Regular paddy

Year	Export Price of Basmati Rice to US (₹/quintal)	Regular Paddy MSP in India (₹/quintal)	Observation
2022-23	~4,500	~2,400	Basmati was significantly more profitable before tariff surge
2023-24	~3,550	~2,420	Basmati price slumped due to steep; U.S. tariff, MSP offers a safer fallback

Source: Ministry of Agriculture & Farmers Welfare, Govt. of India; Media reports (2023–24)

Basmati export price reflects the earnings farmers receive from exporting basmati, while Regular paddy MSP indicates the government guaranteed price for regular paddy. Comparing these figures highlights how US tariffs have reduced the profitability gap between basmati exports and regular paddy cultivation (Table 1).

On the other hand, for the U.S., agriculture is one of its most competitive export sectors, worth over $196 billion in annual exports (as of 2024), backed by large scale farms, advanced technology & billions in subsidies (exceeding $20 billion a year). India's market of 1.4 billion consumers represents a potential multi-billion dollar market, but average Indian tariffs on U.S. farm goods are four to five times higher than U.S. tariffs on Indian products, keeping American produces largely shut out. India protecting its farmers for survival and the U.S. pushing for access to grow its export market is why agriculture has become the key battleground in the reciprocal tariff dispute.

Who has the advantage and why Indian Agriculture feels the heat?

On paper, "equal" tariffs might sound fair. However, the reality is quite different. Indian farms are mostly small, family run plots with very limited government support and are dependent on the monsoon. In contrast, U.S. farms are large-scale, highly mechanized, and receive billions in subsidies each year, allowing them to sell at lower prices even with tariffs in place.

A 50% U.S. tariff on basmati rice is hitting India's exporters hard. In Punjab, farmer's prices for premium rice have dropped from about ₹4500 to ₹3500 per quintal (Figure 2). Many farmers are switching back to traditional paddy sold at the MSP to avoid losses. Smaller exporters of spices, shrimp, and processed foods are also squeezed; higher tariffs mean higher prices for buyers, fewer orders, and higher profit margins, threatening the entire rural supply chain.

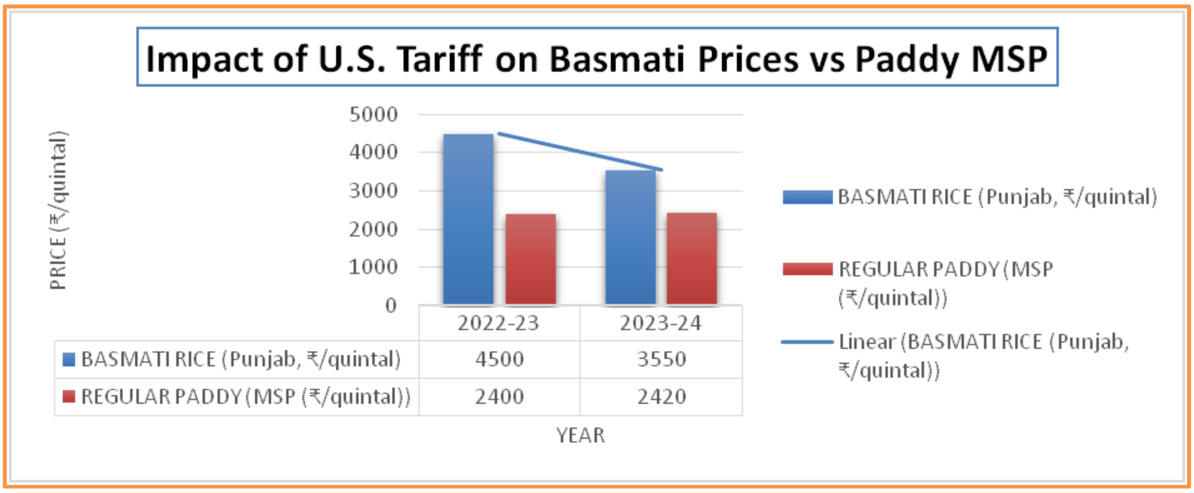

Figure 2. Impact of US Tariff on Basmati Prices vs Paddy MSP
(Source: Ministry of Agriculture & Farmers Welfare, Govt. of India; Media reports, 2023–24)

Impact on Indian Agriculture

Figure 3. Projected losses from U.S. reciprocal tariffs on Indian exports, 2025 (Source: Business Standard, Economic Times, ICRIER)

The reciprocal tariff policy could trigger a serious ripple effect across India's farm economy. The U.S. is one of India's top buyers of Basmati rice (worth over $300 million annually), shrimp (over $5 billion in exports worldwide, with the U.S. accounting for about 40%), and several spices like turmeric and Chilli. Higher U.S. tariffs would make these products more expensive for American importers, leading to fewer orders (Figure 3). This not only cuts farmers income but also affects rural jobs in processing, packaging, and transport over time. Exporters may be forced to find new markets, a process that is slow, expensive, and risky.

What lies ahead for Indian Agriculture?

If this trade stand-off continues, India's agricultural sector could face a double challenge.
1) Shrinking export revenues
2) More competitive domestic market.

While finding alternative buyers for rice, shrimp, and spices is possible, shifting trade relationships takes time. For example, replacing even 25% of the shrimp exports lost from the U.S. could require entering three or more new markets, each with its own safety standards and tariffs.

There is also the risk of **the PRICE DOMINO EFFECT:** When exporters slow, surplus goods flood local markets, lowering prices and squeezing farmers' margins. Smallholders, who make up 86% of India's farmers, will be hit the hardest, as they lack the reserves to survive a bad season of sales. However, this moment could also spark a turning point. India might use the pressure to diversify its export destinations, strengthen trade with the Middle East, Africa, and Southeast Asia, and invest in value-added products like ready-to-cook meals and organic products that can fetch higher prices abroad. The real question is whether India and the U.S. can move past this tariff tug of war and work out a deal that benefits both sides. Such an agreement should open markets but also ensure that small farmers in India are not left behind. Until that happens, agriculture will remain at the heart of the trade clash, shaping how this economic rivalry unfolds.

What can India do now?

India cannot simply sit back and wait for things to settle down. As agriculture and farming are the main sources of income for almost half of our population, every policy step matters. To handle this challenge, India needs to consider both short- and long-term strategies.

- Instead of a head-on clash, India can use trade talks to strike a balance, reminding America that we are a reliable supplier of food while also seeking fair treatment for our farmers.
- At present, the U. S. buys a large share of our basmati rice, shrimp, and spices. However, depending too much on one market is highly risky. India should actively expand its exports to other countries. Even shifting 10-15% of sales to new buyers can soften the blow.
- Adding value at home is key. Currently, India mostly exports raw crops, such as rice or unprocessed shrimp, which fetch lower prices. If more investment goes into processing, for example, turning rice into ready-to-cook products, shrimp into frozen meals, or promoting certified organic products. In this way, exporters can earn higher profits. These items are also less likely to face sudden tariff hikes because many countries encourage processed and branded food imports.

Conclusion

At its core, Trump's reciprocal tariff policy is not just about numbers on paper; it is about power, fairness, and survival. For the US, it is a push to open India's market for its heavily subsidized farm products. However, farming is the livelihood of nearly half of India's population, making agriculture the most fragile part of the trade relationship. If mismanaged, these tariffs could cut farmers income, shrink export earnings, and deepen rural distress. However, if tackled smartly, India can turn this challenge into an opportunity by diversifying its markets, adding value to farm exports, and building resilience. In the end, the future of this trade, battle will be written not in corridors of power, but in the fields of rural India

"When trade turns into conflict, it is the farmers who bear the scars"

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