Our Views

Tariff Woes – A Big, Beautiful Opportunity

"India has never been in distress because its fundamentals are sound," declared a global credit rating agency while upgrading India's sovereign credit rating to BBB. This places India among the higher-rated emerging economies- a very welcome development at a time when the United States has taken the unprecedented step of sharply increasing tariffs on Indian goods, making them among the highest in recent history.

The higher tariffs are expected to affect core export sectors such as textiles, gems and jewellery, marine products, auto components, and agriculture. A final tariff rate of around fifty percent could hit roughly fifty-five percent of our USD 87.3 billion merchandise exports to the US, which generated a USD 45.8 billion trade surplus last year. For labour-intensive industries-especially gems and jewellery, with nearly thirty percent of exports destined for the US-the effect could be severe. Several studies suggest that steep export levies could wipe out between USD 30 billion and USD 35 billion in overseas sales, potentially shaving nearly a full percentage point off GDP growth. Growth forecasts for FY26 have already been revised downward by around thirty basis points by various agencies, and the possibility of an additional 0.2 to 0.5 percent drag on the economy raises serious concerns.

Investor sentiment is already under pressure. Foreign portfolio investors have withdrawn USD 2billion from Indian equities in August so far, following outflows of USD 2 billion in July. Foreign direct investment is also showing a declining trend with some recent recovery. Without decisive policy action, this could set off a vicious cycle of weaker exports, slower growth, and volatile capital flows.

To turn this challenge into an opportunity, the government can consider the following ten measures.

1. **A massive geographical diversification of our exports**

   India's objective of reducing dependence on any single export market- particularly the US-should place strategic diversification at the forefront of trade policy. This involves not only negotiating better trade terms with emerging economies but also rolling out targeted support to Indian exporters. Africa and West Asia deserve top billing in this outreach, given their growing demand for key Indian products and services. India can build win–win partnerships by focusing on multiple sectors such as agriculture and agro-products, where advanced seed technologies can enhance food security; pharmaceuticals, where affordable medicines and scalable healthcare solutions can reach underserved markets; the automobile sector, where competitively priced models can meet the rising needs for both personal and commercial transport; and renewable energy, where India's proven solar PV systems and energy efficiency solutions can find ready markets. Such targeted engagement will open new growth corridors and insulate India from concentrated external risks.

2. **Transport infrastructure overhaul to slash logistics costs and propel manufacturing growth**

   Government data shows that every one rupee spent on infrastructure yields between ₹2.5 and ₹3.5 in GDP, underscoring the sector's immense impact on productivity, capacity expansion, and job creation. Reducing production costs is essential to making Indian goods more competitive. Additionally Indian's logistics cost has recently been estimated at 8 to 9% of GDP, with room to converge toward best-in-class peers.

   To address this gap, India must accelerate investments in infrastructure, integrate digital solutions, and reform regulations. This means fast-tracking the development of multi-modal logistics parks, modernising ports and inland waterways, and implementing standardised digital platforms for freight booking and tracking. Together, these steps will not only improve the manufacturing sector's contribution to GDP but also expand India's footprint in global trade.

Tariff Woes – A Big, Beautiful Opportunity

3. **Boost forex with world-class tourism infrastructure**

   The tourism and hospitality sectors offer an important buffer against external headwinds. To position India as a top-tier tourism destination, it is essential to fast-track world-class infrastructure, including upgrading airports, road networks, and hospitality facilities in high-potential tourism circuits. This should be complemented by simplifying visa processes through expanded e-visa eligibility and expedited approvals, launching focused global marketing campaigns, creating curated cultural and adventure itineraries, and forming public–private partnerships to develop integrated resorts and heritage trails. These measures will elevate visitor experiences, encourage longer stays, and drive sustained growth in tourism-driven foreign currency inflows.

4. **Capital crescendo by foreign portfolio investors driving forex upsurge**

   To enhance foreign exchange inflows from portfolio investors, India must ensure regulatory clarity and policy consistency while streamlining digital onboarding for overseas investors. Introducing a settlement cycle that deepens market liquidity, harmonising tax treatment across asset classes, increasing investment limits, and offering innovative instruments can further strengthen participation. These measures, combined with stronger corporate governance, improved minority investor protections, and macroeconomic stability, will bolster confidence, deepen capital markets, and attract sustained portfolio capital.

5. **Harvesting reform to cultivate global competitiveness in agriculture**

   Reforming agricultural laws is pivotal for enhancing global competitiveness and improving ease of doing business in the sector. With agriculture contributing roughly fifteen percent of GDP and employing nearly half the workforce, enacting a central law to guarantee unfettered inter-state trade would eliminate arbitrary movement restrictions. Incentives for crop diversification into pulses, oilseeds, and other high-value commodities could boost farmer incomes and resilience. Modernising APMCs through public–private partnerships to provide on-site cleaning, grading, and cold-storage facilities will improve quality and reduce post-harvest losses, while developing agro-processing zones and building strong rural–market linkages will help integrate producers into both national and international value chains.

6. **Land and labour reforms to forge India's manufacturing future**

   Reforming land laws to streamline acquisition, secure clear title transfers, and consolidate fragmented plots can significantly lower barriers to setting up factories. By creating dedicated land banks and fast-track dispute resolution mechanisms, India could shorten project gestation periods, reduce financing costs, and boost investor confidence. Greater land-use flexibility and transparent pricing would also improve India's ease-of-doing-business rankings, making the country more attractive to multinational corporations. Consolidating multiple labour laws into a single modern code with flexible hiring rules, clear registration, and expedited dispute resolution would cut compliance costs and help manufacturers adjust their workforce quickly. Aligning these regulations with global benchmarks will attract foreign investment and integrate India more firmly into global supply chains.

   Reviving the mining sector should also be part of this strategy. Although mining currently contributes only 2–2.5 percent of GDP, it represents nearly eleven percent of industrial GDP and employs millions. Reforms such as easing exploration norms through the MMDR Amendment Bill 2025, introducing a State Mining Index for best practice sharing, and launching a policy for recovering critical minerals from mining tailings will be key. Additional measures could include an "Explore in India" mission to speed up exploration-to-mining transitions, wider use of technology such as drones, AI, and GIS for surveying, and development of dedicated mining corridors to lower costs.

Tariff Woes – A Big, Beautiful Opportunity

7. **Simplifying taxation to boost business ease and global competitiveness**

   Streamlining GST into fewer slabs and including sectors like petroleum under a unified framework can reduce compliance burdens, eliminate cascading tax effects, and enable smoother interstate commerce. The newly approved Income Tax Bill 2025, replacing the decades-old 1961 Act, is a landmark reform aimed at reducing the complexity of the tax code, lowering compliance hurdles for individuals and companies, and modernising direct tax procedures. Together, these reforms will enhance policy predictability, cut transaction costs, and make India a more attractive destination for business.

8. **Divesting high-quality premium state assets to attract global capital**

   Privatising or partially divesting stakes in marquee public-sector entities can deliver a double benefit by generating significant foreign exchange inflows from global investors and improving the efficiency of these enterprises.

9. **Leveraging remittances to offset export-driven forex losses**

   In FY2024–25, remittances from the Indian diaspora reached a record of approximately USD 136 billion. These inflows now account for more than ten percent of India's gross current account inflows and cover nearly forty-seven percent of the merchandise trade deficit. Even a steady increase in remittances can act as a cushion for India's forex reserves, offsetting outflows caused by trade deficits or tariff-related export losses, and stabilising the rupee against external shocks.

10. **Fuel forex growth through strategic global capacity centres and BPO hub expansion**

    India's Global Capability Centres and BPOs are powerful engines for foreign interest and forex inflow. As of 2025, India hosts nearly 1,700 GCCs, accounting for more than half of the global total, and the number is projected to reach 2,100-2,200 by 2030, generating between USD 99 billion and USD 105 billion in revenue and employing around 2.5-2.8 million professionals. These centres have evolved from cost-arbitrage units into hubs of innovation, AI, R&D, and global strategic operations, making India an attractive base for multinational corporations. State governments are supporting this expansion through targeted policies, including the promotion of Tier-2 cities. By tapping into new verticals such as portfolio management, financial analytics, and technology-driven services, this ecosystem not only attracts foreign capital but also positions India as a strategic innovation and decision-making hub.

    To rise, shine, and secure its future in an increasingly competitive global landscape, India must convert this adversity into an opportunity by implementing bold and pragmatic reforms, unlocking stalled initiatives, and strengthening domestic demand. By modernising policymaking, the country can turn these tariff challenges into a truly big, beautiful opportunity.

Sunil Sanghai
Founder & CEO
NovaaOne Capital Pvt. Ltd