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Research Article

Impact of Changing U.S. Economic and Trade Policies on The Indian Economy: An Analytical Study

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Abstract

The global economic environment has undergone significant transformations during 2022–2025 due to geopolitical tensions, inflationary pressures, monetary tightening, trade protectionism, and supply-chain restructuring. As the world's largest economy, the United States has implemented several economic and trade policy measures that have substantially influenced emerging economies, including India. This study examines the impact of changing U.S. economic and trade policies on India's trade performance, foreign direct investment (FDI), exchange-rate stability, capital flows, manufacturing sector, and information technology industry. The study is based on secondary data obtained from the International Monetary Fund (IMF), World Bank, Reserve Bank of India (RBI), Department for Promotion of Industry and Internal Trade (DPIIT), U.S. Bureau of Economic Analysis (BEA), and the Office of the United States Trade Representative (USTR). The findings reveal that while U.S. monetary tightening and protectionist trade measures created challenges for capital flows and export competitiveness, opportunities emerged through the China+1 strategy, supply-chain diversification, and increased strategic cooperation between India and the United States. The study concludes that India's economic resilience, policy reforms, and expanding manufacturing capabilities have enabled the country to adapt effectively to evolving global economic conditions.

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KEYWORDS: U.S. Economic Policy, Trade Protectionism, Indian Economy, Foreign Direct Investment, Federal Reserve, Supply Chain Diversification, China+1 Strategy.

1. INTRODUCTION

The global economy has witnessed substantial changes in recent years due to the combined effects of the COVID-19 pandemic, geopolitical conflicts, inflationary pressures, and strategic economic realignments. The United States, as the world's largest economy and a major trading nation, has implemented significant economic and trade policy measures that have affected international trade, capital flows, and investment patterns.

India and the United States have emerged as important economic partners over the past two decades. Bilateral trade between the two countries has expanded significantly, while the United States remains one of India's largest sources of foreign investment and a major market for Indian exports, particularly in information technology and business services.

Recent U.S. policy initiatives, including higher interest rates by the Federal Reserve, trade protectionist measures, technology restrictions, and supply-chain diversification strategies, have generated both opportunities and challenges for India. Consequently, examining the impact of these policies on the Indian economy is of considerable academic and policy relevance.

2. REVIEW OF LITERATURE

Krugman (1991) argued that protectionist trade policies often distort global market efficiency and adversely affect international competitiveness.

Obstfeld and Rogoff (1996) emphasised that monetary policy decisions in advanced economies significantly influence capital flows and exchange-rate dynamics in emerging markets.

The International Monetary Fund (2025) observed that the Federal Reserve's monetary tightening increased capital movement toward U.S. financial assets, affecting investment flows in developing economies.

The World Bank (2025) highlighted that global supply-chain diversification is creating new opportunities for countries such as India, Vietnam, and Indonesia to attract manufacturing investments.

Recent studies suggest that India's economic resilience, digital transformation, and industrial reforms have strengthened its ability to absorb external shocks and benefit from changing global production networks.

Research Gap

Although previous studies have examined trade policy and monetary policy separately, limited research has analysed their combined impact on the Indian economy during the period 2022–2025. Furthermore, insufficient attention has been given to understanding how the China+1 strategy and supply-chain diversification influence India's investment and manufacturing landscape.

3. OBJECTIVES OF THE STUDY

- To analyse major U.S. economic and trade policies during 2022–2025.

- To examine their impact on India's trade and investment environment.
- To assess the implications for economic growth, exchange rates, and capital flows.
- To identify opportunities and challenges arising from these policy changes.
- To provide policy recommendations for enhancing India's economic resilience.

4. RESEARCH HYPOTHESES

- H1:** U.S. monetary tightening significantly influences capital flows and exchange-rate movements in India.
- H2:** U.S. trade protectionist measures adversely affect India's export competitiveness.
- H3:** The China+1 strategy positively influence foreign direct investment inflows into India.
- H4:** Changes in U.S. economic and trade policies significantly affect India's economic growth performance.

5. RESEARCH METHODOLOGY

Research Design

The study adopts a descriptive and analytical research design.

Data Sources

Secondary data were collected from:

- International Monetary Fund (IMF)
- World Bank
- Reserve Bank of India (RBI)
- Department for Promotion of Industry and Internal Trade (DPIIT)
- U.S. Bureau of Economic Analysis (BEA)
- United States Trade Representative (USTR)

Study Period: (2022–2025)

Methods of Analysis

- Descriptive Analysis
- Trend Analysis
- Comparative Analysis
- Policy Impact Assessment

Conceptual Framework

- U.S. Economic and Trade Policies
- Trade Protectionism → Export Performance
- Federal Reserve Policy → Capital Flows & Exchange Rates
- Technology Restrictions → Industrial Competitiveness
- China+1 Strategy → FDI & Manufacturing Growth

Impact on Indian Economy

Major U.S. Economic and Trade Policies

Trade Protectionism

The United States has increasingly relied on tariffs, anti-dumping duties, and trade investigations to protect domestic

industries. Such measures affect global trade flows and export opportunities for emerging economies.

Federal Reserve Monetary Tightening

To control inflation, the Federal Reserve increased interest rates, attracting global capital toward U.S. financial markets and creating challenges for emerging economies.

Technology and Semiconductor Restrictions

The United States imposed restrictions on advanced technologies and semiconductor exports, altering global technology supply chains and investment decisions.

China+1 Strategy

Multinational corporations have diversified production locations to reduce dependence on China. India has emerged as a major beneficiary of this strategic shift.

Analysis and Findings

India–U.S. Services Trade (USD Billion)

To understand the changing trade relationship between India & the United States, services trade data for the period 2022–2024 have been analysed

Table 1: India–U.S. Services Trade (USD Billion)

S. No	Year	U.S. Services Exports to India	U.S. Services Imports from India
1	2022	33.5	32.1
2	2023	38.4	37.5
3	2024	41.8	41.6

Source: U.S. Bureau of Economic Analysis

Interpretation: The data indicate a steady increase in bilateral services trade. India's strength in information technology, software services, and business process outsourcing contributed significantly to this growth.

Foreign Direct Investment Inflows into India

Foreign direct investment plays a crucial role in economic development. The following table presents FDI inflows into India during the study period.

Table 2: Foreign Direct Investment Inflows into India

S. No	Financial Year	FDI Inflows (USD Billion)
1	2021–22	84.83
2	2022–23	70.97
3	2023–24	71.30
4	2024–25* *Preliminary Estimate	75+

Source: Department for Promotion of Industry and Internal Trade (DPIIT), Government of India

Interpretation: Although FDI inflows declined after 2021–22, India continued to attract substantial investment due to policy reforms and supply-chain diversification initiatives. Despite temporary declines caused by global uncertainty, India has

successfully attracted investment due to supply-chain diversification and policy reforms.

India's GDP Growth Rate

Economic growth performance reflects the overall resilience of the Indian economy. GDP growth data are presented below.

Table 3: India's GDP Growth Rate

S. No	Year	Growth Rate (%)
1	2022–23	7.2
2	2023–24	9.2
3	2024–25*	6.5
4	2025–26*	6.5–6.6

Source: International Monetary Fund (2025)

Interpretation: India maintained one of the highest growth rates among major economies, demonstrating resilience despite external economic shocks. In other words we can say that India maintained strong economic growth despite global uncertainty and external economic pressures.

Major U.S. Economic and Trade Policies and Their Impact on India

Different U.S. policy measures have affected various sectors of the Indian economy. The major impacts are summarized below.

Table 4: Major U.S. Economic and Trade Policies and Their Impact on India

S. No	U.S Policy Measure	Impact on Indian Economy
1	Federal Reserve Interest Rate Hikes	Capital outflows, exchange-rate volatility
2	Trade Protectionism	Pressure on export competitiveness
3	Technology Restrictions	Challenges and opportunities in the semiconductor and technology sectors
4	China+1 Strategy	Increased FDI and manufacturing investment
5	Supply Chain Diversification	Enhanced role of India in global value chains

Source: Compiled from IMF, USTR, World Bank, and RBI Reports

Interpretation: The above table highlights the multidimensional effects of recent U.S. economic and trade policy changes on the Indian economy. The Federal Reserve's interest rate hikes led to capital flow volatility and depreciation pressure on the Indian rupee, as investors shifted funds toward higher-yielding U.S. assets. Trade protectionist measures increased uncertainty for Indian exporters, particularly in sectors dependent on the U.S. market. Technology and semiconductor restrictions reshaped global supply chains, creating both challenges and opportunities for India to develop its domestic technology ecosystem. Furthermore, the China+1 strategy encouraged multinational corporations to diversify production locations, resulting in increased foreign direct investment and manufacturing activities in India. Overall, the findings suggest that while certain U.S. policies created short-term economic pressures, they also generated long-term opportunities for industrial growth and global integration. It

means we can say that the table highlights both positive and negative consequences of recent U.S. policy changes for the Indian economy.

Research Hypotheses & Findings

Based on the analysis of secondary data, the following assessment of research hypotheses is made.

Table 5: Research Hypotheses & Findings

S. No	Hypothesis	Expected Relationship	Study Finding
1	H1	U.S. monetary tightening affects capital flows and exchange rates	Supported
2	H2	U.S. protectionism affects export competitiveness	Supported
3	H3	China+1 strategy increases FDI inflows into India	Supported
4	H4	U.S. policy changes affect India's economic growth	Supported

Source: Author's Analysis Based on Secondary Data

Interpretation: The above table presents the evaluation of the study's research hypotheses based on secondary data analysis. The findings indicate that U.S. monetary tightening significantly influenced capital flows and exchange-rate movements in India, supporting Hypothesis H1. Evidence also suggests that U.S. trade protectionist measures affected India's export competitiveness, thereby supporting H2. The positive impact of the China+1 strategy on foreign direct investment inflows and manufacturing expansion in India provides support for H3. Finally, the overall analysis demonstrates that changes in U.S. economic and trade policies influenced India's growth performance through their effects on trade, investment, and financial markets, supporting H4. Although these conclusions are based on descriptive and trend analysis, future research employing econometric techniques may provide more robust statistical validation of these relationships. So we can easily say that the findings suggest that all four hypotheses are broadly supported by the available evidence. However, future studies may employ econometric techniques for statistical validation.

6. DISCUSSION

The findings demonstrate that U.S. economic and trade policies have generated both opportunities and challenges for India. Higher U.S. interest rates increased capital flow volatility and exerted depreciation pressure on the Indian rupee. Trade protectionism created uncertainty for exporters, particularly in sectors dependent on U.S. demand.

However, the China+1 strategy and global supply-chain diversification increased India's attractiveness as a manufacturing destination. India's strong domestic demand, infrastructure development, and digital transformation contributed significantly to maintaining economic stability and growth.

Policy Implications

- Diversification of export markets.
- Strengthening manufacturing and semiconductor industries.
- Enhancing technological self-reliance.
- Promoting long-term FDI through stable policies.
- Expanding strategic trade partnerships.
- Strengthening financial market resilience.

7. CONCLUSION

The study concludes that changing U.S. economic and trade policies during 2022–2025 have had a mixed impact on the Indian economy. While monetary tightening and protectionist measures created short-term pressures on investment flows, exports, and exchange rates, new opportunities emerged through supply-chain diversification and strategic economic cooperation.

India's strong macroeconomic fundamentals, policy reforms, digital transformation, and manufacturing expansion enabled the country to maintain robust economic growth. Future policy efforts should focus on export diversification, industrial competitiveness, innovation, and economic diplomacy to maximise opportunities and reduce vulnerability to external shocks.

Limitations of the Study

The present study has certain limitations that should be considered while interpreting the findings:

- The study is primarily based on secondary data collected from published reports and databases of national and international organizations. Therefore, the accuracy of the findings depends on the reliability of these sources.
- The analysis covers the period 2022–2025 only, which may not fully capture the long-term effects of changing U.S. economic and trade policies on the Indian economy.
- The study adopts a descriptive and analytical approach and does not employ advanced econometric techniques to statistically measure the magnitude of policy impacts.
- Some data for 2024–25 and 2025–26 are based on preliminary estimates and forecasts, which may be revised in future publications.
- The study examines the overall impact on the Indian economy and does not provide detailed sector-specific analysis of industries such as semiconductors, pharmaceuticals, electronics, or information technology.
- External factors such as geopolitical tensions, global inflation, supply-chain disruptions, and domestic policy changes may also influence economic outcomes, making it difficult to isolate the effects of U.S. policies alone.

Scope for Future Research

The present study has analysed the impact of changing U.S. economic and trade policies on the Indian economy. However, several areas remain open for further investigation. Future research may focus on sector-specific effects of U.S. policy

changes, particularly in information technology, pharmaceuticals, textiles, agriculture, and manufacturing. A comparative analysis of the impact on different emerging economies such as China, Brazil, and Vietnam may provide broader insights into global trade dynamics.

Further studies may examine the long-term implications of U.S. monetary, fiscal, and trade policies on India's economic growth, foreign direct investment (FDI), employment generation, and export competitiveness. Researchers may also investigate the role of bilateral trade agreements, supply chain restructuring, and geopolitical developments in shaping India–U.S. economic relations.

Future research can incorporate more recent data and advanced econometric techniques to assess the evolving effects of policy changes. Additionally, the impact of emerging issues such as digital trade regulations, technological competition, climate-related trade measures, and shifts in global value chains may be explored. Such studies would contribute to a deeper understanding of the opportunities and challenges arising from changes in U.S. economic and trade policies for the Indian economy.

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