

Last week, I published a comprehensive report titled *Weaponizing Commerce: The Mirage of a Coercive Trade Policy*, which investigated the historical precedents and structural failures of using tariffs as instruments of geopolitical coercion. This analysis serves as a continuation of that work, focusing squarely on the profound domestic consequences of the newly enacted Lindsey O. Graham Sanctioning Russia and Iran Act of 2026. This legislation grants the US President the executive authority to impose punitive tariffs of up to 100% on imported goods from nations that continue to purchase Russian-origin oil and natural gas. Aimed primarily at major energy importers such as India and China—which rank as the top buyers of Russian crude—the legislation is designed to sever the financial lifelines supporting the Russian state.

However, as I detailed in my foundational report, this legislative maneuver relies on a fundamental macroeconomic fallacy. By attempting to wield the American consumer market as a geopolitical cudgel against sovereign allies such as India, the United States risks unleashing a devastating sequence of domestic economic shocks. Far from ensuring foreign policy compliance, threatening and potentially executing 100% tariffs on Indian goods guarantees severe domestic inflation, the fracturing of critical healthcare and industrial supply chains, and the accelerated erosion of US diplomatic and financial hegemony.

The Economic Fallacy of Tariffs and the Mechanics of Deadweight Loss

The strategic objective underpinning the Lindsey O. Graham Sanctioning Russia and Iran Act is the immediate capitulation of foreign nations to US energy directives. Proponents of the legislation operate under the assumption that the threat of a 100% tariff will force India, the world's third-largest oil importer, to instantaneously halt its Russian energy procurement.

As *Weaponizing Commerce* correctly identifies, the core structural flaw in this logic is that a

tariff is not a financial penalty paid by the exporting nation, but rather a border tax levied directly on the domestic importer. If a 100% ad valorem duty is applied to Indian imports, the primary victim is the American business relying on those industrial inputs and the American consumer reliant on the finished goods.

The imposition of such extreme levies generates massive “deadweight loss” within the macroeconomy. Deadweight loss represents the permanent destruction of economic value caused by market distortion.

- Consumption Distortion: A 100% tariff essentially doubles the landing cost of Indian goods, artificially pricing out US manufacturing firms from necessary capital equipment and suppressing mutually beneficial transactions.
- Production Distortion: By artificially shielding domestic producers from global competition via a 100% price shield, the tariff incentivizes the US economy to trap vital labor and capital in fundamentally inefficient sectors. This destroys comparative advantage and structurally lowers the nation’s total economic welfare.

In 2025, the US imported \$151.1 billion in goods from India, with consumer goods accounting for \$57.9 billion of that total. Subjecting this massive volume of trade to a 100% tariff would effectively double the cost of over a hundred billion dollars of global supply, introducing profound inefficiencies into the American market.

Sovereign Defiance and the Inelasticity of Energy Demand

The threat of a 100% tariff relies on the presumption that India has the elasticity and political will to instantly abandon Russian crude. The empirical data proves otherwise. India relies on foreign markets for over 88% of its crude oil requirements. In recent periods, Russia has

accounted for roughly one-third to nearly half of India's crude imports, helping the nation contain domestic fuel prices and inflation. In July 2026 alone, Russia supplied nearly 52% of India's imported crude, vastly outpacing traditional suppliers.

For New Delhi, securing this energy is not a matter of geopolitical alignment, but of strict macroeconomic survival and economic efficiency. The Indian Ministry of External Affairs (MEA) has issued firm diplomatic rebukes to the US pressure, framing their position around the practical necessity of keeping energy supplies secure and affordable. Because India's base-load energy demand is highly inelastic, New Delhi cannot and will not capitulate. Absorbing the deadweight loss of US tariffs is viewed as mathematically and politically preferable to triggering a catastrophic domestic energy crisis in India. Consequently, the 100% tariff threat fails as a deterrent; instead, it virtually guarantees that the tariffs will be enacted, forcing the US economy to absorb the resulting inflationary explosion.

Inflationary Shocks and the Healthcare Supply Chain Crisis

If the 100% tariffs are activated against India, the US economy will face an immediate, regressive consumption tax that violently drives up core inflation. US importers do not simply absorb catastrophic margin compressions; these costs are passed directly down the supply chain until they reach the end consumer.

The composition of US imports from India makes this inflationary shock uniquely perilous, particularly in the healthcare sector.

- India is a critical node in the US healthcare supply chain.
- Prior to 2026 escalations, India exported approximately \$10.97 billion in medical appliances and accessories, as well as heavily relied-upon generic pharmaceuticals and

active pharmaceutical ingredients (APIs) to the US.

- A 100% tariff on these goods directly inflates the operational costs of American hospitals and drastically increases out-of-pocket expenses for patients.

Because domestic demand for active pharmaceutical ingredients is highly inelastic in the short term, American consumers and businesses cannot simply stop buying them. This massive extraction of capital acts as a broad-based tax hike that slows consumer spending and forces reactionary monetary tightening.

Systemic Supply Chain Disruption and Frictional Costs

Global supply networks are highly optimized ecosystems built on predictability, precision logistics, and long-term contracting. The abrupt imposition of 100% tariffs on a massive manufacturing hub like India forces American businesses into a chaotic and highly expensive logistical retreat.

The concept of “friend-shoring”—rapidly relocating supply chains to alternative nations or domestic markets—takes years to execute and requires billions of dollars in upfront capital expenditure. In the interim, US corporations face severe supply bottlenecks, as the capacity to immediately replace billions of dollars in Indian organic chemicals, textiles, and technology components simply does not exist elsewhere in the global market at scale.

As US firms scramble to secure limited alternative supplies, the sudden spike in localized demand drives up global commodity prices across the board. The logistical friction of breaking established shipping routes and navigating complex new customs compliance regimes further degrades corporate profitability, actively harming the US industrial base.

Diplomatic Alienation and the Acceleration of De-Dollarization

Beyond the immediate economic friction, the diplomatic blowback generated by the weaponization of tariffs is structurally enduring. By wielding punitive tariffs against a sovereign economic power like India over secondary geopolitical issues, the United States inflicts long-term diplomatic damage that deeply erodes its global standing.

India is a critical strategic partner required by the US to balance power in the Indo-Pacific. Treating India as a subordinate entity subject to Washington's energy dictates dismantles decades of carefully cultivated bilateral trust.

Most critically, this persistent weaponization of trade provides the ultimate catalyst for the consolidation of alternative, non-Western economic blocs. If trading in US dollars and relying on access to American consumer markets comes with the constant, existential threat of sudden tariff annihilation based on geopolitical alignment, sovereign nations have a fiduciary duty to their citizens to structurally decouple from the US financial system. This materializes in the rapid development of alternative cross-border payment systems, such as China's Cross-Border Interbank Payment System (CIPS) and BRICS Pay, designed specifically to bypass the USD-dominated SWIFT network.

By pushing massive economies like India and China closer together to defend their mutual energy and trade interests, the United States validates the core hypothesis of its own strategic failure. The tariffs intended to project American power have only accelerated its structural decline, actively alienating the very nations required to maintain a US-led global order.

The deployment of the Lindsey O. Graham Sanctioning Russia and Iran Act of 2026 perfectly

Double the Tariff, Double the Shock: The Inflationary Danger of Coercive Trade

illustrates the mirage of a coercive trade policy. In its attempt to starve Russia of energy revenues, the United States has inadvertently turned its economic weaponry inward. Because nations like India view their energy procurement as a non-negotiable cornerstone of their domestic survival for 1.4 billion citizens, the threat of US tariffs will not yield diplomatic compliance. Instead, the US economy will be forced to absorb the catastrophic deadweight loss of 100% tariffs on hundreds of billions of dollars of imports. This guarantees an inflationary spiral driven by regressive consumption taxes, the severe fracturing of vital medical and industrial supply chains, and the alienation of a crucial Indo-Pacific ally. Ultimately, the indiscriminate weaponization of tariffs does not extract wealth or compliance from foreign adversaries; it actively cannibalizes domestic prosperity and structurally locks the United States out of the next century of global economic growth.