Delhi Policy Group

Advancing India's Rise as a Leading Power

POLICY BRIEF

The Trump Tariffs and India

Author

V.S. Seshadri

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Cover Photographs:

US President Donald Trump hosted the Prime Minister of India, Narendra Modi, for an Official Working Visit in Washington D.C., on February 13, 2025. Source: Narendra Modi

Indian Commerce Minister Piyush Goyal met US Trade Representative Jamieson Greer to discuss a mutually beneficial Bilateral Trade Agreement in Washington D.C., on March 14, 2025. Source: X/@USTradeRep

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Introduction

On April 2, 2025 President Donald Trump landed[1] strong 'reciprocal tariff' punches on US allies, friends, FTA partners and foes alike. These tariff levels were harsh, as the one country-one tariff rates imposed ranged from 10% to 50%, with India somewhere in the middle at 26%. Nor were they in accordance with his dictum "I charge you what you charge me". No country was spared from 'reciprocal tariffs' except Canada and Mexico, even as they also faced other tariffs which had been announced.

Then on April 9, just hours after these 'reciprocal tariffs' actually came into force, and following a disastrous week of turmoil in the financial markets in the US and elsewhere, as also a round of retaliation by China and counter retaliation by the US, the 'reciprocal tariffs' were paused[2] by President Trump for most countries for 90 days, i.e. till July 9, 2025. A baseline additional tariff of 10% will, however, apply for all. Only in the case of China, the US has further hiked the cumulative tariff level to 145%, while China has escalated its response to 125% tariffs for the US.

In this brief, we will try to understand these tariffs better, as well as their potential impact. These 'reciprocal tariffs' do not cover steel, aluminium, autos and auto parts on which uniform tariffs of 25% have already been imposed by the Trump administration on national security grounds, and which will impact India's exports. We will be looking at what is driving these measures and what President Trump is seeking to achieve.

We will also examine how these tariffs may impact India's export prospects in the US market. Tariff walls going up in the world's No.1 market, particularly for China which is the world's leading exporter but also others, would also mean there will be trade diversion of surplus goods to markets like India. This again needs careful consideration.

[1] https://www.whitehouse.gov/presidential-actions/2025/04/regulating-imports-with-a-reciprocal-tariff-to-rectify-trade-practices-that-contribute-to-large-and-persistent-annual-united-states-goods-trade-deficits/

[2] https://www.whitehouse.gov/presidential-actions/2025/04/modifying-reciprocal-tariff-rates-to-reflect-trading-partner-retaliation-and-alignment/

These newly announced tariffs, even if some have been temporarily paused, considerably raise the negotiating leverage for the US. Already, over 50 countries have reportedly offered to negotiate with the US and offered to bring down their tariffs apart from, in some cases, offering to also make significant purchases of US products. In this context, we will discuss the approach that India may need to adopt in the already ongoing discussions on the bilateral trade agreement (BTA), the first tranche of which is to be finalised by this fall.

What exactly are these 'reciprocal tariffs'?

These tariffs were computed based on a simple formula: determine each country's trade surplus with the US as a percentage in relation to total imports from that country during the calendar year 2024, as per US trade figures; half that figure is that country's reciprocal tariff. Thus for India, which had a trade surplus of US$ 45.66 bn in 2024, as against imports from it into the US of US$ 87.42 bn, this ratio in percentage terms came to 52%. Half of this ratio, 26%, was the reciprocal tariff determined for India. And so on for others.The largest reciprocal duty of 50% was imposed on Lesotho.

Very clearly, the trade surplus of a country with the US in 2024, when the US trade deficit also peaked at US$ 1.2 trillion, had been taken as a proxy for measuring the restrictiveness or lack of reciprocity from the country concerned, even as this methodology is open to question. The 'reciprocal duties' came into force at zero hour on April 9, but were paused starting April 10 for ninety days.

Secondly, for all countries, whether they had a trade surplus or deficit with the US during 2024, a baseline rate of duty under this 'reciprocal tariff plan' was set at 10%. Therefore, even for countries which had a trade deficit with the US or whose surplus did not exceed 20% of its imports into the US, a minimum rate of 10% was applicable which came into force on April 5 for all countries, and will now continue.

Thirdly, this reciprocal tariff was to be in addition to normal applied tariffs that are otherwise applicable for each country in the US. This meant that for countries like India, the earlier MFN tariffs in the US will be added, whereas for countries that had free trade or other arrangements with the US, the tariffs under those respective agreements will apply supplementally.

Fourth, these reciprocal duties will not be applicable for steel and aluminium items[3] on which uniform duties of 25% have been already levied on all

[3] https://www.federalregister.gov/documents/2025/02/18/2025-02832/adjusting-imports-of-aluminum-into-the-united-states

countries, including India, with effect from March 12 this year. Similarly, they will also not be applicable on autos and auto-parts on which again a uniform duty of 25% has been put into place with effect from April 3 this year[4].

However, certain products were exempted from the application of these reciprocal tariffs, even as the specific considerations for exclusion of each of them have not been spelt out. These include:

1. Certain minerals and ores;
2. Fuel items including some refinery products;
3. Certain inorganic and organic chemicals including rare earths;
4. Pharmaceuticals;
5. Certain dyes and pigments;
6. Certain polymers;
7. Some rubber items;
8. Timber items;
9. Books and printed matter;
10. Certain precious metals in bullion form;
11. Some ferroalloys;
12. Copper and copper items;
13. Zinc, tin and a few other metals; and
14. Semiconductors and IC chips.

Additionally, on April 11, presumably following pressures from IT majors in the country, President Trump has further excluded[5] items like cellphones, computers and their parts, chips and chip making machines, routers, flat screen monitors and a few other electronic devices. These have been exempted mainly because bulk of their manufacturing does not currently take place in the US. (China, which accounted for much of the US imports of these products in 2024, will also get exemption from the 'reciprocal tariffs', but the fentanyl related 20% tariff will continue to apply on them).

There are, at the same time, indications that some of these presently exempted items like copper, pharmaceuticals, timber and semiconductor chips, could also face duties on national security grounds in the coming months.

[4] https://www.federalregister.gov/documents/2025/04/03/2025-05930/adjusting-imports-of-automobiles-and-automobile-parts-into-the-united-states
[5] https://content.govdelivery.com/bulletins/gd/USDHSCBP-3db9e55?wgt_ref=USDHSCBP_WIDGET_2

What are President Trump's objectives?

President Trump believes that the large and persistent annual US goods trade deficits have been caused in substantial part by a lack of reciprocity from its bilateral trade partners. Disparate tariff rates and non-tariff barriers, coupled with unhelpful economic policies of key US trading partners, have been cited as the reasons undermining US exports. The key objectives behind the imposition of reciprocal and other tariffs imposed appear to be:

a) to bring a good share of manufacturing and the jobs involved back to the US, where manufacturing has been reduced to 11% of GDP;

b) to strengthen national security by reducing import dependence on critical and strategic items that have been identified to include steel, aluminium, copper, autos and auto parts, pharmaceuticals, lumber, semiconductors, critical minerals etc.;

c) to restore innovation and R&D in manufacturing in the US;

d) to use the tariffs as leverage to get countries to reduce their tariffs and non-tariff barriers which can improve America's access into those markets, help rebalance trade, and reduce the persistent and substantial merchandise trade deficit of the US; and

e) to also use the revenues generated from the tariffs to offer tax cuts that can further incentivise US and other businesses investing in the US.

The use of tariffs to rebalance trade and build economic security marks a wide departure from trade theories of comparative advantage and economic efficiency that drove the era of globalisation. This also fundamentally deviates from the existing WTO system, which is based on principles of non-discrimination and predictability, by bringing in elements of country-specific tariff levels and arbitrariness.

Indeed, arbitrariness is evident even from how the 'reciprocal tariffs' have been determined. The Trump Administration has found it expedient to go by a simple formula, rather than presenting a fair and persuasive one. Similarly, the fact that there are reversals to the tariff plan and increasing exemptions by the day, even within a few days after its introduction, means that this mega initiative has not received adequate prior due diligence. This certainly adds to the uncertainty.

The question also arises what may be the final objective or the landing zone for this whole exercise. Here, it is worth citing an article by Robert Lighthizer who was the USTR during the earlier Trump administration, on the creation of a new trade regime to enforce balance. He calls[6] upon countries with democratic governments and mostly free economies to come together to create a system with two tiers of tariffs:

"One higher level would be to countries outside the group. These would be non-democratic countries as well as those that insist on using beggar-thy-neighbour, aggressive industrial policies to run large trade surpluses. Those tariffs over time would reduce those surpluses.The countries within the new regime would pay lower tariffs, and they could be adjusted over time to ensure balance. When a country in the group begins to run substantial surpluses, the others could increase their tariffs on it. The equilibrium would not necessarily be with each country in the group for every year. The objective would be to have balance within the entire group and over time - perhaps a running three year period. The details would be negotiated".

The question is whether the 'Reciprocal tariff Plan' launched by this Trump administration is intended to prepare the ground for moving towards such a two-tiered regime that is based on trade balancing. If so, the trade world is in for a long haul before any semblance of normalcy returns. India will need to ensure that its economy and businesses do not get unduly or adversely hit in the process.

What is the legal basis for these Trump trade measures?

The Reciprocal Tariff Plan has been introduced by President Trump by declaring a national emergency to meet the 'extraordinary threat to the national security and economy of the United States' under its International Emergency Economic Powers Act. As for the earlier measures on steel, aluminium, autos and auto-parts, these were imposed under Section 232 of the US Trade Expansion Act on national security grounds.

This US administration clearly considers that the national emergency situation it has declared allows it to disregard compliance with WTO rules in enacting these measures, as also the commitments the US has made in the fourteen FTAs that it is party to.

[6] See the article 'May I introduce you to the tariff?' By Robert Lighthizer which appeared in 'The Business Standard' on February 6, 2025.

Reciprocal tariff brackets skew comparative advantage

The additional 'reciprocal tariffs' ranging from 10 to 50%, if implemented, would alter the level playing field and radically reset the comparative trade advantage among US trade partners. Those at the baseline tariff of 10% include Australia, Egypt, Turkey, Singapore, all GCC countries, the UK and most Latin American countries. Two of India's neighbours, Nepal and Maldives, also figure in this bracket. With certain of them also being party to FTAs with the US - Australia, Singapore and some Latin countries - they will enjoy the easiest access.

Placed at the second level of 11 to 20% are Norway (15), Israel (17), Philippines (17), Jordan(20) and the EU (20). Mexico (17) should have figured under this bracket, but it is getting an easier dispensation for its USMCA compliant goods.

India (26) figures at the third level of 21 to 30% reciprocal tariffs along with Japan (24), Malaysia (24), South Korea (25), Pakistan (29) and South Africa (30).

In the fourth bracket of 31-40% are Switzerland (31), Taiwan (32), Indonesia (32), China (34), Bangladesh (37) and Serbia (37). Goods from China will, however, be facing an additional 20%, imposed on account of Fentanyl related issues, apart from the retaliatory tariffs applied on it subsequently.

In the final bracket of 41-50% are Sri Lanka (44), Myanmar (44), Vietnam (46), Laos (48), Cambodia (49) and Lesotho (50).

While India can take some comfort from the fact that compared to its key competitor countries in the US market from East, South East and South Asia, it did not fare too badly, the currently paused situation of an identical 10% additional duty for all countries alters the dynamics in some way for the next three months. This also sets off competition amongst the exporting countries to arrive at a quick deal with the US within these 90 days, so that they can escape these tariffs altogether.

Impact of uncertainty on India's exports to the US

A uniform additional duty of 10% for all countries for the next ninety days should not affect inter se competition very much, although there could be a good deal of bargaining by US buyers who can put pressure on exporters for price reduction to at least share part of the added cost. It would be important for the government to be supportive of possible exporter needs, including in the form of low interest liquidity support.

The likely lowering of imports from China into the US because of prohibitive duties should, however, help other countries to fill that space. (For example, China had a 25.6% share of textile and clothing items coming into the US amounting to US$ 30.3 bn in 2024, as against India's 9.1% share). Furthermore, US importers, fearing what may happen after 90 days, may also seek to build up inventory during this period, which can in fact temporarily hike up demand. Those exporters with adequate supply capacities and time-bound logistical freighting arrangements will stand to benefit.

There could, however, be certain high value items like gems and jewellery, whose exports[7] to the US from India were valued at US$ 10 bn in 2023-24, for which US demand could decline as a result of the 10% additional tariff.

Similarly, the steel and aluminium related items and autos and auto- parts subject to a uniform tariff rate of 25% for all countries may see reduced demand. India's exports of these items to the US market comprised another US$ 10 bn. There would certainly be attempts in the US to enhance domestic manufacturing of these items, or source them from Canada and Mexico which would still enjoy some tariff advantage if those products were USMCA compliant.

Around 20% of India's exports to the US - comprising petroleum refinery products, pharmaceuticals, certain inorganic and organic chemicals, dyes etc., adding up to US$ 15 bn in 2023-24 - which have been exempt from any tariff increase will remain unaffected, at least for now. The latest addition of iPhones to this exemption list further adds to this figure, and it is estimated that India's exports of these cellular devices could themselves exceed US$ 8 bn in 2024-25 (they were US$ 6.67 bn for the first ten months).

This will, however, change if the reciprocal duties get introduced after 90 days. While it will raise India's additional duty to a hefty 26%, the duty levels will be even more in the case of competitor countries from East, South East and South Asia. But considering how quickly decisions can get reversed or revised under this administration, and with possibilities prevailing of some countries being able to arrive at a deal with the US during this period, it may be hazardous to make any prediction about what situation may prevail at that point of time.

More important for India is to see if it can make substantial progress on the BTA negotiations in the coming months, when one can expect the US trade

[7] See Table 1 at the end for details about the 20 largest items of export from India to the US

negotiating teams to be fully stretched with competing offers from several countries.

The BTA negotiation dynamics

The government in India has speedily, and without reacting adversely, handled the Trump tariff threat after the timely visit of PM Narendra Modi to the US in February, when the two sides set an ambitious goal of doubling bilateral trade to US$ 500 bn by 2030 and announced plans to negotiate the first tranche of a mutually beneficial, multi-sector **Bilateral Trade Agreement (BTA)** by the fall of 2025. This was rapidly followed by the visit of Commerce and Industry Minister Piyush Goyal to the US in early March, and the visit of a USTR team led by the Assistant USTR for South Asia Brendan Lynch to Delhi later in the same month.

The visit of the Assistant USTR has apparently enabled both sides to broadly come to an understanding on the next steps in moving forward on the BTA, including expert level sectoral engagements in the coming weeks, followed by an early negotiation round[8].

That said, the question still arises how should India be approaching these negotiations, and with what objectives? The USTR team's visit came before the announcement of reciprocal tariffs. A new situation now obtains, with these tariffs giving the US side additional negotiating leverage.

Aspects needing clarity at this stage

One key issue, even before we go on to address key objectives for India, would be to better understand whether the US side would be, as part of the BTA negotiations, willing to reduce/eliminate the 25% Section 232 tariffs on steel, aluminium, autos and auto-parts as well as remove the 10% baseline tariff on most other products. Or are the BTA negotiations only about removing the additional reciprocal duty beyond the baseline level of 10% plus the MFN tariff for the product concerned? This doubt arises since the existing FTA partners of the US, except Canada and Mexico, have all been slapped with both the Section 232 duties and the baseline tariff. Moreover, British PM Keir Starmer has recently stated that he has shifted his focus in US trade talks "to cutting the 25% tariff on British cars, admitting he did not know if he could persuade Donald Trump to axe his new 10% tariff on all British imports"[9].

[8] https://pib.gov.in/PressReleseDetailm.aspx?PRID=2116613&reg=3&lang=1
[9] https://www.ft.com/content/d3fc557f-dcda-44d9-962c-e5b8dc287ee7

Secondly, it will be important to be clear whether a first tranche of the BTA needs US Congressional approval for getting implemented. If so, the Indian authorities need to be prepared for that contingency when some further bargaining can happen, as was the case prior to the USMCA Congressional approval process in December 2019.

Third, there should also be some clarity on the durability of the deal, since trade and investments depend on predictability. Agreed outcomes in the BTA should not get reopened because the trade balance moves in certain directions in the next year or two, even as there can be reviews after a reasonable period.

It would, therefore, be important for the two sides to draw up clear terms of reference for the first tranche which can be negotiated within a short time period, but which nevertheless produces very tangible and demonstrable outcomes for both sides. Sensitive regulatory issues are always more difficult and should be set aside for the subsequent tranche, by when more confidence and mutual trust gets built to handle them.

What should be India's objectives?

Without going into too many details, what can be said for the BTA is to achieve a level playing field for Indian products and services in the US market akin to the US's other FTA partners who enjoy preferential access. If the US wants to temporarily protect some strategic sectors like metals or autos with tariffs, because it wants to build domestic capacities for economic security reasons, we should show understanding and not insist on tariff reduction beyond what it may offer to other partners. But on other sectors including labour intensive ones such as clothing, footwear, toys, cutting and polishing diamonds, jewellery and even most auto-parts or engineering items produced at the SME level, there can be no such compulsions. It is also most unlikely that the US can rebuild competitiveness and capacity in them.

Secondly, some understanding needs to evolve how a degree of complementarity can be built in towards trusted supply chains which the BTA framework can support, such as relating to iPhones, electronic items, medical devices and other engineering items. Deepening supply chain integration figures prominently in the BTA mandate as reflected in the Trump-Modi Joint statement of February 13 this year.

Third, President Trump has also referred[10] to the pharma sector as an area where some tariffs are contemplated to incentivise companies to move their operations to the US. Generic pharmaceuticals constitute a lead sector in India's basket of exports to the US. Reaching some understanding will be important to ensure that this trade, comprising interwoven supply chains, faces no rupture but get strengthened in a mutually supportive manner.

Fourth, a degree of clarity on facilitation of short term movement of services professionals for business purposes would be important. India has also been insisting for long on conclusion of a bilateral social security agreement. While it will take time to be finalised, initiating negotiations for such a deal as part of the first tranche outcome would be of interest to India.

Likely US demands, and how should India respond?

The list of US concerns in the Indian market have already been spelt out in the USTR's National Trade Estimates (NTE) report released[11] earlier this month on April 1. It contains issues relating to high tariffs in certain agricultural items (apples, corn, walnuts and almonds, poultry, processed food used in fast food outlets, alcoholic beverages etc.), as well as in a few industrial ones (motor cycles, autos and auto-parts, medical devices, drug formulations, ICT products, paper items, chemicals etc.). Perceived non-tariff barriers have also been pointed out in areas such as pulses (quotas), ethanol import restrictions, dairy products and Genetically Modified (GM) products. In addition, lack of access to India's government procurement has been cited. India's IPR protection regime has further been termed inadequate. The NTE report moreover views India's minimum support price (MSP) programme for farmers as a price distorting agricultural subsidy rather than as a food security compact.

Certainly, India should try and address as many legitimate concerns of the US as possible in the BTA. But the US also has a tendency for exporting its domestic policies, many of which are unsuited for a developing country like India at its present stage of development. So issues like government procurement (even the US has its 'Buy America Act), strengthening India's IPR standards beyond TRIPS requirements, altering India's digital regulatory framework to suit Big Tech's interests, or any unsettling of the MSP system for agriculture products has to be a firmly avoided from our perspective. Even on GM products, we need to be guided by our own scientists and health professionals. If such an

[10] https://economictimes.indiatimes.com/news/international/global-trends/trump-says-us-will-soon-announce-tariffs-on-pharmaceutical-imports/articleshow/120110100.cms?from=mdr

[11] https://ustr.gov/sites/default/files/files/Press/Reports/2025NTE.pdf

assessment is not definitive, India should follow the precautionary principle like the EU.

That said, wherever else possible, India needs to make a sincere effort to see if accommodation can be shown for increasing US access to India's market that can help reduce the bilateral trade imbalance. The US is India's largest export partner and India was the first country that was offered a BTA after President Trump took office the second time.

In areas of particular interest to the US, India can offer the best access it has offered to its existing FTA partners (Japan for example enjoys tariff free access for around 85% of India's tariff lines under the India-Japan CEPA), or intends to offer to those still in the negotiating track such as the UK, EU, and others. Of course, certain items may be quite unique to US demands, such as ethanol or a few agricultural items. Depending on domestic sensitivities, these need resolution with offers of appropriately sized tariff quotas where necessary. And if in areas like pulses the US can meet some of our requirements, this too needs to be favourably considered.

There are also certain areas in which the US can provide raw material requirements for our industry. For example, the US can help meet some of the raw material constraints for the apparel sector in a competitive manner, particularly if we are looking to scale up capacities. This needs to be explored.

Admittedly, in the FTAs with our existing partners we have not opened up the auto sector. Here there are also going to be demands from the UK and the EU in the ongoing FTA negotiations. India needs to take a somewhat uniform and coherent view. This would also be the situation vis-a-vis items like alcoholic beverages.

The US will need to show understanding that just as it is now shielding certain areas like steel, aluminium or autos with higher levels of tariff protection for economic security reasons, India too has similar needs. The share of manufacturing in India's GDP has declined to around 13-14% and an active effort is underway to increase this figure through the production linked incentive (PLI) scheme and other initiatives that also ensure adequate employment. Moreover, India too has a large global merchandise trade deficit and the country's goods exports could finance only 64% of its imports in 2023-24, just as it is in the case of the US, whose exports in 2024 could finance only 63% of its imports. Talking, therefore, of 'zero or almost negligible' tariffs in autos or other areas regarded as strategic or sensitive needs to be avoided.

Finally, there are also some big ticket items needed by India which can be purchased from the US which can again help reduce the trade imbalance. Greater off take of LNG, increasing defense procurement, offers to buy Boeing aircraft by Indian private air carriers, and setting up of US-designed nuclear reactors (as mentioned in the India-US joint statement of February 13, 2025) are all possibilities that need to be given serious and rapid consideration without in any way compromising the national interest.

We need to be clear. Come next year, President Trump would be under pressure domestically to show a reduced trade deficit, or at least a significant expansion in US exports to India. This is also in India's interest for the continued expansion of bilateral trade, as envisaged in the target of reaching US$ 500 bn by 2030.

Dealing with third country trade diversion

As already mentioned, with exports to the US market constrained, some of the export oriented third countries may seek to divert their surplus goods to the Indian market. It is welcome to learn that the government has set up an inter-ministerial panel to monitor imports to check such potential diversions that may hurt the domestic industry. The Directorate General of Trade Remedies (DGTR) may need to even take suo motu action if the situation so demands.

Concluding Note

Tackling the Trump tariff hike with its accompanying twists and turns is going to be challenging, particularly with the high degree of uncertainty prevailing in the global business environment. But with a BTA path, there could be a way to smoothen the bumps along the road. India needs to give it a sincere and serious try, just as the US too should, and this brief has attempted to make some broad suggestions. This is even as India needs to also try and conclude the ongoing FTA negotiations with the UK and the EU as early as possible.

At the same time, as many commentators have already stated, if further domestic reform measures can be taken towards promoting ease of doing business in India, these will certainly multiply gains and result in greater investor interest in the country. However, as for separately reforming or reducing India's tariffs further at the same time, caution is advised while tariff negotiations are underway with three or more major advanced economies.

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Table 1: India's main exports to the US in 2023-24 (in USD million)

Serial Number	Items exported	Value
1	Drug formulations	8015
2	Pearl,precious, semi precious stones	6577
3	Petroleum products	5830
4	Telecom instruments	5823
5	Gold and other precious jewellery	3306
6	Products of iron and steel	2782
7	Ready made garments including accessories	2744
8	Electronics components	2697
9	Cotton fabrics/made-ups	2615
10	Marine products	2499
11	Electrical machinery	2391
12	Auto components and parts	1863
13	Industrial machiner faor dairy etc.,	1603
14	Other miscellaneous engg.. items	1443
15	Electronic instruments	1259
16	Organic chemicals	1106
17	Residual chemicals/allied products	1036
18	Aluminium and aluminium products	953
19	Man made yarn	707
20	Iron and steel	476
	India;s total exports to the US during 2023—24	77,515

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