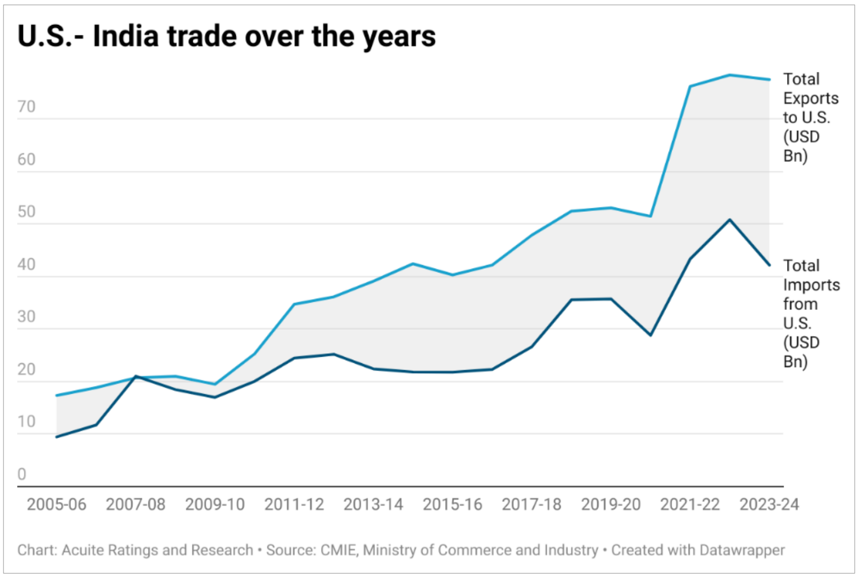
U.S. Tariff Imposition:
Wading global trade waters

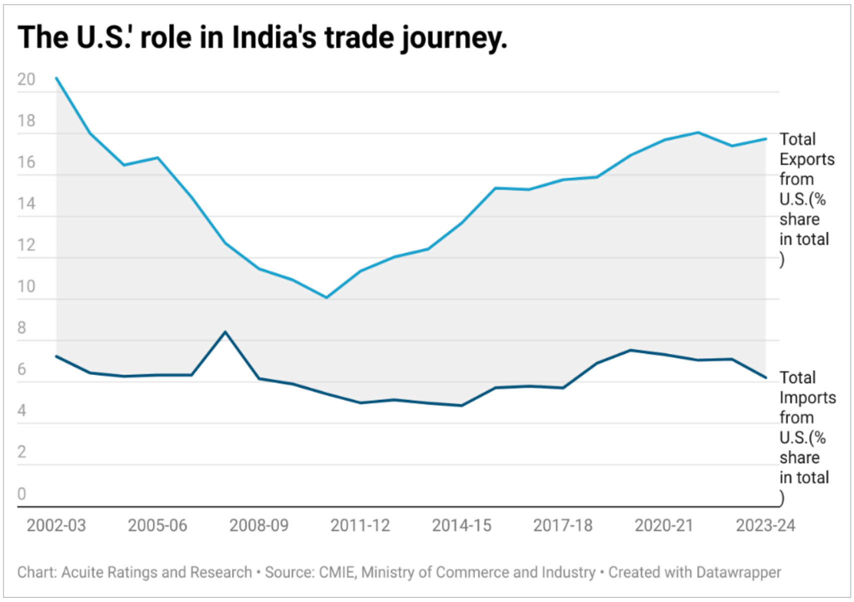
Trade relations U.S. – India so far:

The global trade landscape in 2025 is witnessing a fundamental change, driven by shifting geopolitical alliances, which might change the existing supply chains, as well as impact global growth. India and the U.S. have enjoyed a welcome cooperative partnership when it comes to trade in recent times. As the world moved towards globalisation, both nations saw substantial gains as they placed themselves as two of the world's largest economies.

India's trade strategy so far is to position itself as a manufacturing hub, at par with China, with its desire to become a major player in digital trade and one of the biggest exporters of services globally. Meanwhile, the U.S. is pursuing a trade policy from the time of protectionism and economic as well as supply chain fragmentation.

The trade relationship between India and the U.S. has grown significantly in recent years, reaching new milestones in 2024. According to the latest data, bilateral trade between the two nations hit a record $119 Bn, making the U.S. India's largest trading partner. India exported a total of $77.5 Bn worth of goods to the U.S. in FY 24, marking a share of 17.7% of its total exports.





A key feature of this trade relationship is the persistent surplus in India's favour, with the U.S. importing about $23 Bn worth of goods on average from India than it exported for the past ten years. This underscores the strong demand for Indian goods such as pharmaceuticals, textiles, and IT services in the U.S. market.

Prior to the tariff announcements by the Trump administration, the U.S. claimed that the tariff differential between its trading partners, as its stance, was unfair. India shields certain sectors from competition by restricting the markets with high tariffs as it protects domestic industries, which are still in the nascent stages of development.

On April 2, 2025, US President Donald Trump announced the imposition of additional ad-valorem duties ranging from 10% to 50% on imports from all trading partners, including India. The baseline duty of 10% will be effective from April 5, and an additional 17% duty will be imposed from April 9, bringing the total tariff on Indian imports to 26%. This move is part of Trump's strategy to retaliate against what he perceives as unfair trade practices by India, particularly the 52% tariff that India imposes on American goods. India is carefully examining the implications of these tariffs and exploring opportunities that may arise from this new development in US trade policy.

The Indian government is hopeful that the reciprocal tariff issue will be resolved through the Bilateral Trade Agreement (BTA) discussions, which are focused on enabling both nations to grow trade and investment transfers. Beyond trade, geopolitical considerations also play a role in India-U.S. economic ties. Both nations have a shared interest in countering China's growing influence in the Indo-Pacific region. Strengthening trade and investment ties aligns with their broader strategic goals in global economic and security affairs.

The expansion of supply chains away from China has been a key opportunity in deepening India-US trade relations. The "China+1" strategy, adopted by many US and Western corporations, has positioned India as an attractive manufacturing destination. However, the diversification of supply chains is occurring at an uneven pace, with some sectors, such as auto components and mobile phone assembly are, witnessing greater progress than others, like high-tech semiconductor fabrication and Active Pharmaceutical Ingredients (API) solutions.

U.S.- India Tariff differentials

Broad Sector	USA Export to India (US$ Billion)	USA Import from India (US$ Billion)	Weightage Average Tariffs Faced by the USA Exports in India (%)	Weightage Average Tariffs Faced by Indian Exports in the USA (%)	Tariff Differential (%)
Agriculture, meat and processed food	1.94	6.04	37.66	5.29	32.37
Automobiles	0.42	2.80	24.14	1.05	23.10
Diamonds, gold and products	1.92	11.88	15.45	3.12	13.32
Chemicals and Pharmaceuticals	3.52	18.44	9.68	1.06	8.63
Electrical, Telecom, and Electronics Products	1.34	14.40	7.64	7.64	0.00
Medical, Leather, Paper, Glass, Ships, Aircraft, and Remaining Categories	2.92	8.24	9.70	2.79	6.91
Plastics, Articles	1.41	1.36	9.95	4.39	5.56
Machinery, Computers	2.85	7.10	7.45	5.48	2.48
Products of Iron, Steel and Base Metals	2.85	5.40	4.54	2.06	2.48
Textile and Clothing	0.40	10.80	10.37	9.00	1.37
Ores, Minerals and Petroleum	11.12	3.43	3.24	6.67	-4.36
Uncategorised Imports	3.63	1.42	-	-	-
-	34.34	91.23	7.67	2.79	4.88

Table: Acuite Ratings and Research • Source: GTRI, Feb 2025, • Created with Datawrapper

Impact on India's Export Competitiveness

The impact of these tariffs will differ across sectors. Some industries may retain their market position due to cost advantages over competitors facing even higher tariffs. However, price-sensitive sectors with narrow profit margins could struggle to maintain their U.S. market share.

India stands to gain from recent U.S. tariff adjustments, especially as Asian competitors like China, Vietnam, Bangladesh, and Thailand face significantly higher duties. In contrast, Indian exports enjoy relatively lower tariffs, enhancing their competitiveness in several strategic sectors. This policy realignment presents India with an opportunity to deepen its manufacturing presence and export footprint in the U.S. market.

Sectoral Impact: Winners and Losers:

Textiles & Apparel:

With Bangladesh and Vietnam facing tariffs of 37% and 46%, respectively, Indian textiles, despite a 26% duty, retain a price advantage. Exporters could expand market share by recalibrating pricing and supply chains, capitalizing on India's strong presence in the $9–10 Bn U.S. apparel import market.

Consumer Electronics:

Consumer electronics emerged as India's top export category to the U.S. in FY24, led by iPhone shipments. While the new 26% tariff could marginally erode profit margins, India remains far more competitive than China (54%) and Vietnam (46%). Ongoing investments under India's Production-Linked Incentive (PLI) scheme will further solidify its role in global electronics manufacturing.

Semiconductors:

With Taiwan facing a steep 32% tariff, semiconductor manufacturers may look to diversify production to India contingent on robust infrastructure and policy support. This sector holds promise if India accelerates investment in chip manufacturing and design.

Footwear Manufacturing:

India's relatively small share in U.S. footwear imports could increase as Vietnam and Cambodia, dominant suppliers, now face prohibitive tariffs of 46% and 49%. Quick capacity expansion and supply chain improvements could help Indian manufacturers tap this opening.

Pharmaceuticals:

Indian pharmaceuticals, 30% of which are exported to the U.S., remain mostly unaffected by the tariff wave as they remain exempt. The focus now shifts to operational efficiency to maintain the edge. Additionally, the existing Marine and biodiversity available to India might give us an edge in exploring medicinal applications.

Agriculture:

India's agricultural exports will also see some winners and losers; while most of India's exports will be safe, there might be some downsides, such as Shrimp exports, where Ecuador, our competitor, retains an edge given its meagre 10% tariff rate.

Steel & Aluminium:

Steel exports, already taxed at 25% since 2018, face little change with the new rate. However, aluminium exports see a more disruptive jump from 10% to 26%, which may undercut Indian competitiveness, especially vis-à-vis nations with lower tariffs.

Gems & Jewellery:

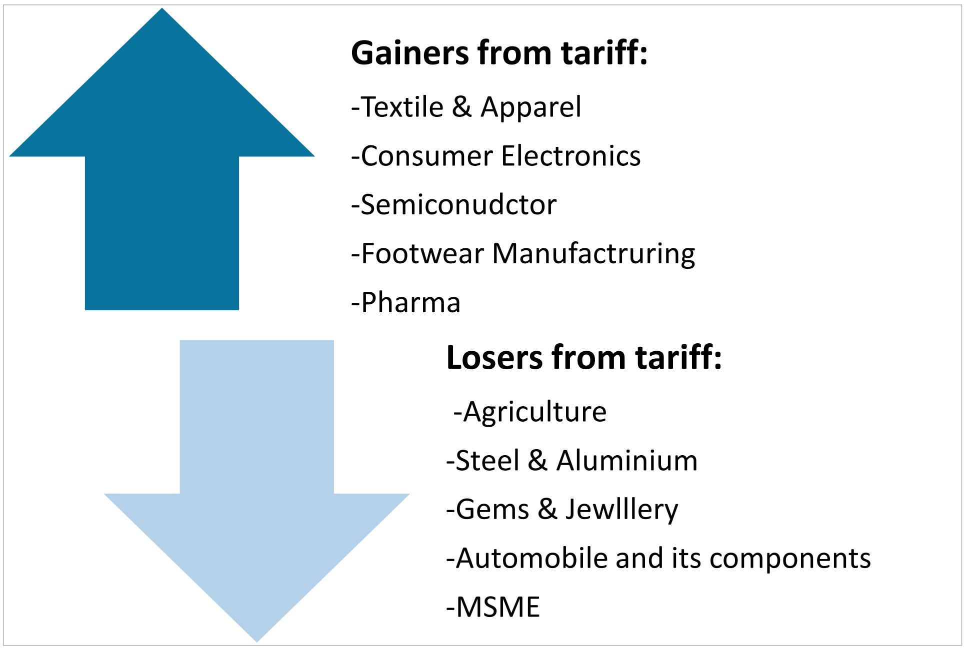
Previously exempt or lightly taxed, Indian gems and jewellery now face much higher tariffs. With exports to the U.S. valued at around $10 Bn annually (12.8% of the total exports), the sharp cost increase could reduce demand, especially amid stiff competition from Turkey and the UAE. This could have downstream effects on employment in this labour-intensive industry.

Automobiles & Components:

While fully built automobiles aren't a major export from India to the U.S., components worth $2.1 Bn are. The tariff will test Indian suppliers, especially against competitors in North America and the EU with FTA-backed advantages.

MSMEs:

Micro, Small, and Medium Enterprises (MSMEs), which account for 30% of India's total exports, primarily in labour-intensive sectors, will face heightened challenges under the new tariff regime, compounding their existing struggles with thin margins and limited price competitiveness.



Outlook:

India has perceived U.S. reciprocal tariffs as a "mixed bag but not a setback," reflecting an outlook that acknowledges both challenges and opportunities for enhancing India's trade position. Consequently, India is not actively pursuing retaliation against the tariffs, instead prioritizing negotiations over retaliatory measures.

India's outlook in response to U.S. tariffs is a blend of challenges and opportunities. In the short term, industries reliant on U.S. exports may face negative impacts, including higher costs and reduced demand for goods. Key sectors such as agriculture, textiles, and engineering goods could experience slower growth. These tariffs have also triggered negative market reactions and may lead to reduced export revenues for businesses across the spectrum, from small enterprises to large companies. Additionally, it could harm the financial markets, weakening the rupee and intensifying imported inflation. Foreign investors, including FDI and FPIs, might leave for better and safer choices, given the uncertainty in the market. Companies with foreign debt face increased risks as well.

Over the medium term, India should strengthen globally competitive sectors like technology and pharmaceuticals to attract investment as companies diversify their supply chains. While retaliatory tariffs may escalate tensions, India is likely to prioritize diplomatic solutions which would help achieve some stability.

India's emergence as a cost-effective manufacturing destination offers significant opportunities for global supply chains. The country's competitive edge in sectors such as textiles, electronics (including telecom, smartphones, and semiconductors), and engineering goods provides relief amid shifting dynamics. Certain industries, like pharmaceuticals and specific agricultural exports, may remain relatively unaffected. India's domestic manufacturing base, helped by government initiatives such as the Production-Linked Incentive (PLI) schemes, Make in India, and Atmanirbhar Bharat, is expected to keep domestic growth relatively stable. We expect all the countries will negotiate various trade agreements and recover towards the latter half of the year, once the dust has settled.

Macroeconomic Outlook:

The imposition of reciprocal tariffs poses a modest but notable downside risk to India's GDP growth in FY26. While the full impact depends on the elasticity of demand for Indian goods and the response from Indian policymakers, Currently, we are estimating the direct export losses due to US tariffs are projected at 0.1% of GDP. With no immediate countermeasures, we see downsides to our current GDP forecast of 6.6% for FY26. We estimate that various economies feeling the sour taste of tariffs will worsen the trade environment, resulting in slowing supply chains and global growth. That could compound the downward pressure.

This could lower India's expected growth rate somewhere between 6.0% and 6.4%, assuming no immediate countermeasures or reorientation of trade flows.

There is also a risk of a broader dampening effect on investment sentiment, particularly in export-intensive industries such as textiles, jewellery, and processed foods. If firms anticipate reduced profitability or access to the U.S. market, it could delay expansion plans and affect private capital formation. However, some buffer may come from the relatively low import content of India's exports, which limits spillover risks to the broader economy.

That said, domestic demand dynamics remain favourable, with easing inflation, fiscal stimulus, and monetary policy still in the accommodative territory. This could partly offset the adverse effects of reduced exports. Moreover, the government's decision not to retaliate immediately, paired with murmurs of tariff reductions on U.S. goods and BTA, signals a preference for maintaining trade stability, which could help contain the downside risks to growth.

New Tariffs announced by the Trump Administration

Country ▲	Tariffs charged to the USA(%)	Reciprocal Tariff (Adjusted) (%)
Bangladesh	74	37
China	67	34
European Union	39	20
India	52	26
Indonesia	64	32
Japan	46	24
Malaysia	47	24
Philippines	34	17
South Africa	60	30
South Korea	50	25
Taiwan	64	32
Thailand	72	36
Vietnam	90	46

Table: Acuité Ratings & Research Limited • Source: U.S. White House communications • Created with Datawrapper

About Acuité Ratings & Research Limited:

Acuité is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI) and accredited by the Reserve Bank of India (RBI) as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms. Backed by a strong analytical team, Acuité helps financial markets grow and be more efficient. ESGRisk Assessment and Insights Ltd, India's first dedicated ESG Ratings company and SMERA Ratings Pvt Ltd, the world's first SME-focused rating company are the two wholly-owned subsidiaries of the company.

Media Contact:

Sahban Kohari
Ph: + 91-9890318722
sahban@eminencestrategy.com

Disclaimer: This report is based on the data and information (data) obtained by Acuité from sources it considers reliable. Although reasonable care has been taken to verify the data, Acuité makes no representation or warranty, expressed or implied with respect to the accuracy, adequacy or completeness of any Data relied upon. Acuité is not responsible for any errors or omissions or for the results obtained from the use of the report and especially states that it has no financial liability, whatsoever, for any direct, indirect or consequential loss of any kind arising from the use of its reports. Any statement contained in this report should not be treated as a recommendation or endorsement or opinion or a substitute for reader's independent assessment.