

# US tariffs and India: An evolving story

March 2025







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Note – The contents of this flyer are updated upto 21 March 2025. Developments beyond 21 March 2025 can be anticipated to impact the contents of this flyer.





# 1. Introduction

Since the United States (U.S.) presidential elections in November 2024, global trade dynamics have shifted significantly. The U.S. administration has indicated and implemented several tariff measures, impacting major economies, including India.

As global trade policies continue to evolve, the economic relationship between U.S. and India is undergoing significant changes. While both nations are deeply interconnected through trade, investment, and strategic agreements, recent U.S. tariff measures have introduced new complexities.

The trade relationship between the United States and India, valued at **\$129.20 billion in 2024<sup>1</sup>**, is at a critical juncture as new U.S. trade policies aim to introduce tariff realignments. The total bilateral trade between India and the U.S. for April-December 2024 stood at US\$ 93.4 billion, slightly lower than US\$ 94.6 billion which corresponds to trade between U.S. and China. Trade activities between the two countries have reflected notable fluctuations between India and the U.S. over recent years (**Figure 1, annexed**).

The tariff measures indicated by U.S. post-November 2024 elections, particularly on steel, aluminum, automobiles, and pharmaceuticals, are expected to disrupt global supply chains and impact Indian exporters as well.

## Realignment of tariffs: Chronology of Events

The early months of 2025 have witnessed a series of significant U.S. trade policy shifts, marking a realignment of tariffs and international trade relations. The rapidly evolving dynamics are captured in Table 1.

## India's response to US tariffs

### India-U.S. Trade Joint Statement on Trade Deal

In February 2025, India and the U.S. issued a joint statement setting a goal to double bilateral trade to \$500 billion by 2030, termed "Mission 500."

To achieve this, both sides have committed to negotiate a Bilateral Trade Agreement (BTA) by fall 2025, focusing on fair trade terms, market access, reducing trade barriers, and integrating supply chains.

### India's overall strategy

To counteract the impact of U.S. tariffs, India has aimed at implementing tariff adjustments specific to the U.S. Beginning with the Budget 2025 and including the post Budget changes, India has effectuated tariff relaxations on various goods with specific focus/carveout for U.S. exports as under –

- **Motor bikes** – Basic Customs duty slashed from 50 % to 40% and 30% respectively, on completely built-up units (CBUs) with engine capacities of up to 1600 CC, and 1600 CC or more.
- **Bourbon Whiskey** - slashed overall effective import duties to 100% from 150%, in a specific deviation.
- **Ethernet Switches** - slashed overall effective import duties to 10% from 20%, on carrier grade ethernet switches.
- **Synthetic flavoring essences** – slashed overall import duties to 20% from 100%, on synthetic flavoring essences and mixtures of odoriferous substances.
- **Fish Hydrolysate** – Basic Customs duty slashed from 15% to 5% on Fish Hydrolysate for use in manufacture of aquatic feed.

<sup>1</sup> As [documented](#) by the United States Trade Representative (USTR)

Simultaneously, both countries have started working towards negotiating the BTA to achieve the stated aim of reaching a deal before the end of 2025.

However, apart from market access, a key task for India to balance in this regard would be the considerable difference in the applied tariffs between the two nations – while India imposes an average tariff of 17 percent, the U.S. maintains a much lower average of 3.3 percent.<sup>2</sup> Important to mention that this gap is even wider in agriculture, where India's simple average tariff is 39 percent, compared to five percent in the U.S!

**Table 1: Chronology of rapidly evolving trade policy shifts by the U.S.**

| S. no. | Event  | Date             |
|--------|--|------------------|
| 1      | America First Trade Policy launched  | 20 January 2025  |
| 2      | Tariffs on Canada, Mexico and China imposed  | 01 February 2025 |
| 3      | Canada announces retaliatory tariffs on U.S. goods   | 01 February 2025 |
| 4      | Tariffs on Mexico and Canada on hold   | 03 February 2025 |
| 5      | Tariffs on China came into effect and end of duty-free packages from China under IEEPA <sup>3</sup>        | 04 February 2025 |
| 6      | China announces retaliatory tariffs, export controls, etc.   | 04 February 2025 |
| 7      | Duty-free packages from China restored   | 05 February 2025 |
| 8      | 25% tariffs on steel and aluminum imports from all countries announced                                     | 10 February 2025 |
| 9      | Reciprocal Trade and Tariffs Memorandum issued   | 13 February 2025 |
| 10     | America First Investment Policy Memorandum   | 21 February 2025 |
| 11     | Memorandum concerning Digital Service Taxes issued   | 21 February 2025 |
| 12     | Factsheet on copper imports as a national security threat  | 25 February 2025 |
| 13     | Factsheet on timber and lumber imports as a national security threat                                       | 01 March 2025    |
| 14     | U.S. tariffs on imports from Canada and Mexico imposed, and higher tariffs on imports from China in effect | 04 March 2025    |
| 15     | Canada and China issue retaliatory measures  | 04 March 2025    |
| 16     | U.S. issued USMCA related exemptions for Canada and Mexico   | 06 March 2025    |
| 17     | U.S. tariffs on steel and aluminum come into effect  | 12 March 2025    |
| 18     | EU and Canada announces retaliation against U.S. steel and aluminum tariffs                                | 12 March 2025    |

<sup>2</sup> Source: [https://www.wto.org/english/res\\_e/booksp\\_e/world\\_tariff\\_profiles24\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/world_tariff_profiles24_e.pdf)

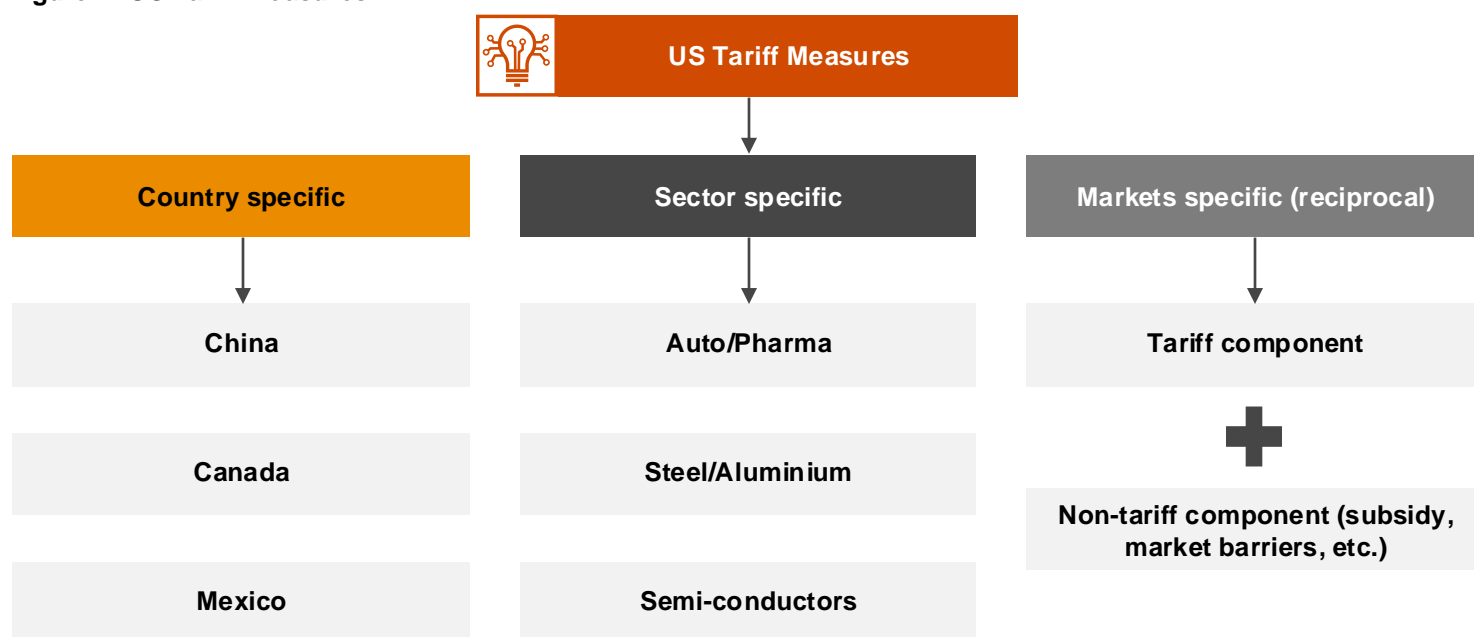
<sup>3</sup> International Emergency Economic Powers Act (IEEPA)



## 2. Key U.S. Trade Proposals with the potential to impact Indian businesses

Many proposals indicated by the U.S. have shaken up the markets and initiated discussions within supply chains. The recently proposed U.S. tariffs can be categorized into three key types:

**Figure 1: US Tariff Measures**



### 1 Country-Specific Tariffs

Currently, country specific tariffs have been notified for China, Canada and Mexico and effectuated for imports from China. These tariffs have been imposed based on strategic or other geopolitical considerations. India has not been a primary target yet, but there are risks:

- **India's Trade Deficit with the U.S.:** If the U.S. administration focuses on reducing trade imbalances, India's exports could face selective tariffs.
- **U.S.-India Trade Relations:** While both countries have strengthened ties, possible disputes over digital taxes, data localization, etc. could lead to tariff actions.

- **Tariffs on Developing Nations:** The U.S. is reconsidering its tariff policies for emerging economies. Thus, while India has already graduated from U.S. trade preference programs such as the Generalized System of Preferences (GSP), further structural changes in the program may hamper India's attempts to restore GSP benefits for certain sectors



## 2 Sector-Specific Tariffs

Post-election, the U.S. administration has imposed or proposed higher tariffs in key sectors affecting India.

### I. Auto & Pharma Tariffs

On 18 February 2025, President of the U.S. announced his intention to impose auto tariffs 'in the neighborhood of 25%', and similar duties on semiconductors and pharmaceutical imports.

- **Announcement:** February 18, 2025 – Proposed auto, pharmaceutical and semiconductor tariffs
- **Expected Implementation:** May come into effect from 2<sup>nd</sup> April 2025.

It is noteworthy that in 2018 and 2019, the Commerce Department had conducted a national security investigation into auto imports and found that they weakened the domestic industrial base. At that time as well, threat of 25% tariffs was notified, however no action was taken.

## 3 Markets specific (Reciprocal) Tariffs

The U.S. is considering reciprocal tariffs to counteract against tariffs and non-tariff barriers imposed by other countries. The specific details have not been notified in the public domain yet. However, the U.S. government may assess reciprocal tariffs based on the following five factors:

- **Current Tariff Levels on US Goods** – If a country imposes high tariffs on U.S. exports, the U.S. may reciprocate by levying equal amount of tariff on imports from that country into the U.S.
- **Internal Taxes** – Additional tax burdens on U.S. businesses, like domestic Value Added Tax (VAT), etc. may also trigger retaliatory tariffs and/or be a part of their calculation.
- **Non-Tariff Barriers & Regulatory Burdens** – Complex compliance requirements impacting the U.S. businesses.
- **Foreign Exchange Policies** – Countries manipulating exchange rates to disadvantage the U.S.
- **Structural Impediments** – Any other trade practices deemed unfair by the USTR.

### II. Steel and Aluminum Tariffs

A new 25% tariff on almost all steel and aluminum imports into the U.S. has been imposed. This directly impacts Indian steel manufacturers exporting to the U.S.

- **Announcement:** February 10, 2025 – U.S. President signed an executive order imposing these tariffs.
- **Implementation:** March 12, 2025 – Tariffs took effect.

While the calculation, determination, and coverage of these tariffs have not been clarified by the U.S. administration, the very fact that being a developing country India's tariffs on an average are higher than that of U.S., implementation of reciprocal tariffs on India can significantly impact Indian exports, especially in the sectors with higher exports to U.S. (Textiles & Apparels, Pharmaceuticals, Auto Components, Gems & Jewelry, etc.).

- **Announcement:** February 13, 2025 – Proposed reciprocal tariff implementations by the US administration per the announcements made on 13 February 2025 and 5 March 2025.
- **Expected Implementation:** May come into effect from 2<sup>nd</sup> April 2025.

### Impact on Indian exporters Due to U.S. Tariffs on other countries

U.S. tariffs on Chinese goods have the potential to create more opportunities for Indian exporters, especially in sectors such as electronics, textiles, and engineering goods, where Indian businesses could be in relatively more favorable positions.

While with the announcement of reciprocal tariffs proposal in sight, the overall balancing of benefit vs loss may be difficult to ascertain, a couple of case studies are being discussed below to better understand the potential impact on Indian exporters

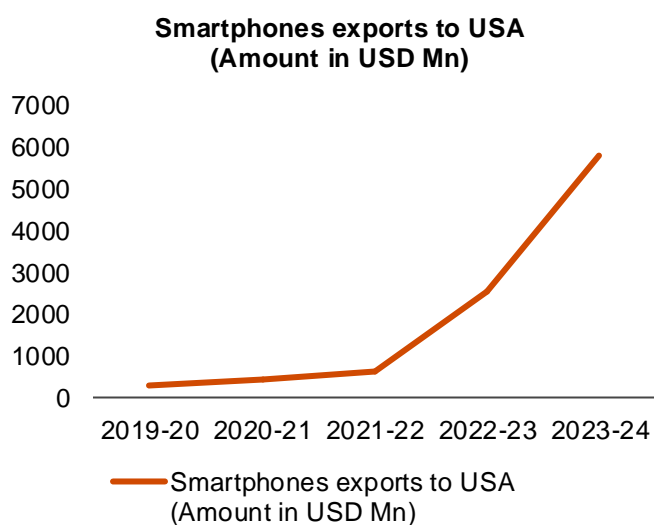
## I. U.S. Tariffs Benefiting Indian Exports (Smartphones)

### I.A Tariffs on Indian Exports to the US

Supply chain diversification post pandemic and owing to increased incentivization towards local manufacturing in India (PLI etc.), India has now emerged as an alternative manufacturing hub for smartphones, apart from China. As a result, global companies like Apple and Samsung are ramping up production in India to cater to U.S. demand and between 2022 and 2024, Indian smartphone exports to the U.S. have grown significantly. The following graph (Figure-2) illustrates this trend.

However, the reciprocal tariffs may imply that the tariffs implemented by India on imports of smartphones from the U.S. i.e. 15% would be extended to exports of smartphones from India to the U.S. Hence, if the reciprocal tariffs are imposed by the U.S., **exports of smartphones from India will attract a tariff of 15%**. This could impede the growing trajectory of smartphone exports from India as currently the tariffs attracted stand at 0%, whereas the revised tariffs would be 15%!

**Figure 2: Growth of Indian Smartphones exports to US**



### I.B Tariffs on Indian Exports to the US, while Chinese exports to the US also face a tariff!

As indicated above, in case reciprocal tariffs are effectuated, Indian exports of Smartphones may start attracting the same tariff that Indian imports of smartphones face – i.e. 15%.

Question arises, does Indian exports remain competitive vis-à-vis Chinese exports. In this regard, the following appears, -

| S. No.  | Country of exports of smartphones | Tariffs attracted in the US |
|---|-----------------------------------|-----------------------------|
| 1.  | China                             | 20%                         |
| 2.  | India                             | 15%                         |
| Delta   |                                   | 20%-15% = 5%                |
| If applied, assumed <sup>4</sup> non-tariff barrier component on Indian exports to the US |                                   | 2%                          |
| Overall Delta <sup>5</sup>  |                                   | 5%-2% = 3%                  |

Post 4<sup>th</sup> February 2025, as products of Chinese origin are attracting a blanket 20% tariffs under International Emergency Economic Powers Act (IEEPA), it can be noted that even the smartphone exports from China will face a 20% tariff when imported into the US.

As can be seen from the table above, there is a 5% delta that gives Indian exports of smartphones an edge over Chinese exports of smartphones, into the US market. Even if the reciprocal tariff proposal adds an additional 2% in non-tariff barrier component, Indian exports could still leverage a 3% price advantage over Chinese exports.

However, while ALL Chinese exports would be attracting 20% tariffs across the board, and Indian tariffs would be relatively variable depending on the tariffs imposed by India on imports of the product in question, hence the delta will vary with the product in question.

## II. Indian Exports of Auto Components: Potential for benefit?

In the year 2023-2024 (FY24), India's auto component industry achieved a turnover of Rs 6.14 lakh crore, marking a 9.8% increase from the previous year. Exports played a significant role, contributing Rs 1.75 lakh crore with the United States accounting for 27% of these exports.

<sup>4</sup> While there is no publicly available information about how the non-tariff barrier component would be calculated, however for the purposes of undertaking this assessment, it has been assumed to be 2%.

<sup>5</sup> This is not considering any additional tariffs on smartphones exports from China to U.S. owing to further additions under Reciprocal tariff proposals.

India's auto component exports have shown consistent growth, with the U.S. being a key destination (Figure-3).

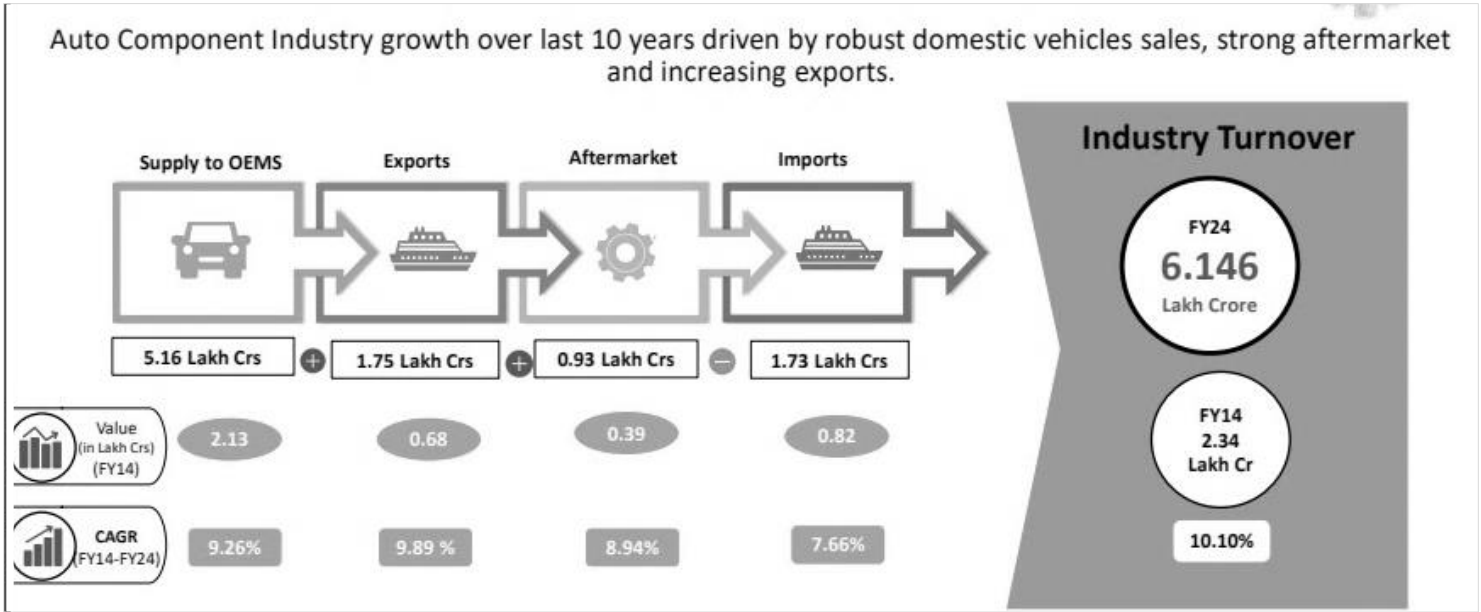
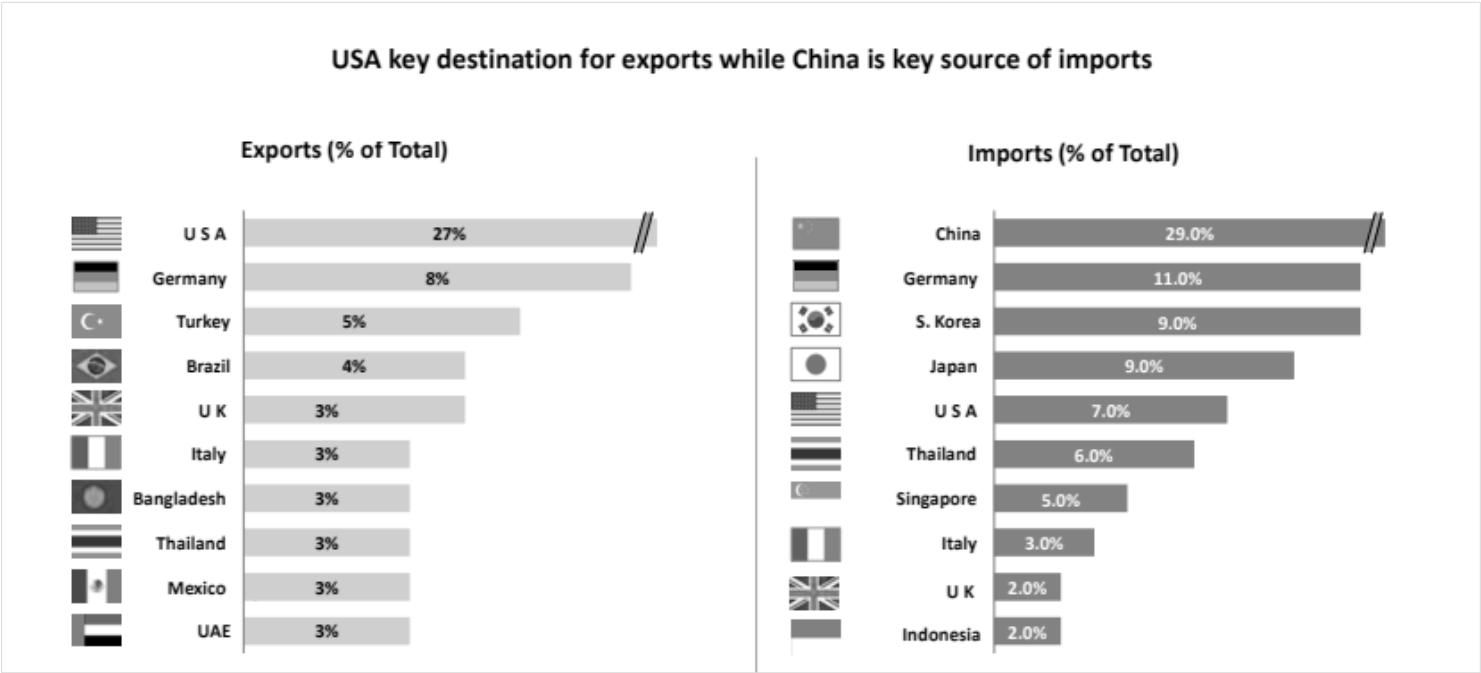


Figure 3: USA key destination for exports of auto components



Source- ACMA 2024

However, the U.S. government's consideration of reciprocal tariffs aims to match the import duties imposed by its trading partners. As the same tariff rates as those attracted at importation into India would be applied under the reciprocal tariffs proposal, hence the exports of – engine and transmission parts could start attracting around 15% applied tariffs, brakes and suspension systems to start attracting around 10% applied tariffs, electrical components to start attracting around 10% applied tariffs, etc., based on U.S. exports of these items attracting respective values of tariffs. In addition to this, non-tariff component would also be added for imports from India into the U.S., as determined by U.S. authorities.

The imposition of tariffs could thus have notable implications:

**Increased Costs:** Tariffs could elevate the prices of Indian auto components in the U.S. market, potentially reducing their competitiveness.

**Supply Chain Adjustments:** U.S. manufacturers might seek alternative suppliers to mitigate increased costs, leading to a potential decline in demand for Indian components.





### 3. Building Resilience: Strategy for sustainable growth (IDEA Framework)

The evolving U.S. trade policies, including tariff realignments and other measures, require Indian businesses to develop a long-term resilience strategy. The IDEA Framework – Invest, Diversify, Express, and stay Aware - provides a structured approach to navigate trade uncertainties and leverage emerging opportunities.

#### 1 INVEST

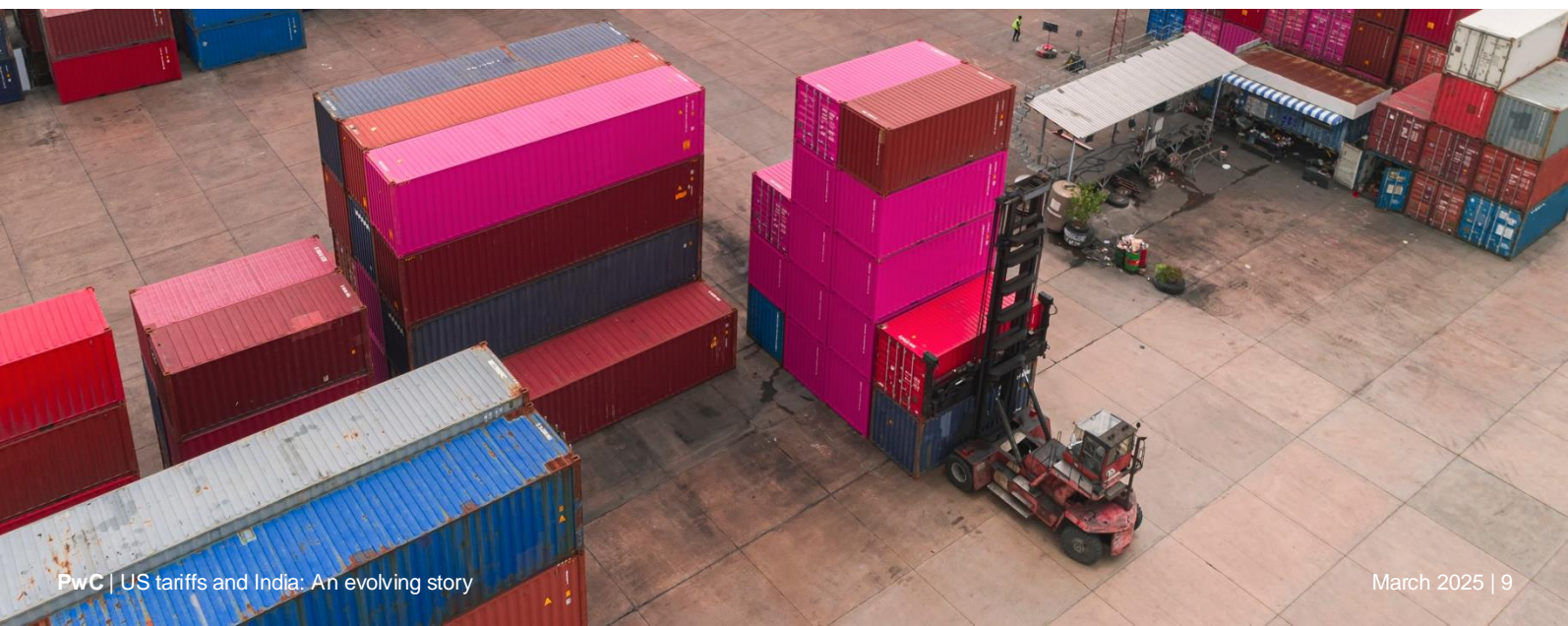
**In greener initiatives and tech deployment:** Investing in sustainability and advanced technology can help businesses stay competitive and qualify for potential tariff exemptions in the future.

#### Key Strategies:

- **Make Supply Chains Greener:** Adopt green manufacturing, invest in renewable energy, and develop low-emission supply chains. With increasing global demand for sustainable products, businesses may integrate renewable energy, eco-friendly materials, circular economy principle, etc. which will provide them with an edge over the competitors.
- **Undertake initiatives for Technology Upgradation:** Invest in automation, AI-driven supply chain solutions, and digital trade compliance tools to enhance compliance with global trade norms, and faster pace as compared to competitors.

**Example:** A manufacturer shifting to solar-powered operations or using biodegradable packaging to attract environmentally conscious buyers.

**Example:** A production unit of the company implementing AI-based quality checks to improve efficiency, reduce waste, and comply with stringent international standards.





**Choice of Supply Chains and Markets:** To minimize risks from trade restrictions, businesses may explore new export markets and reduce dependence on a single source of raw materials or single suppliers.

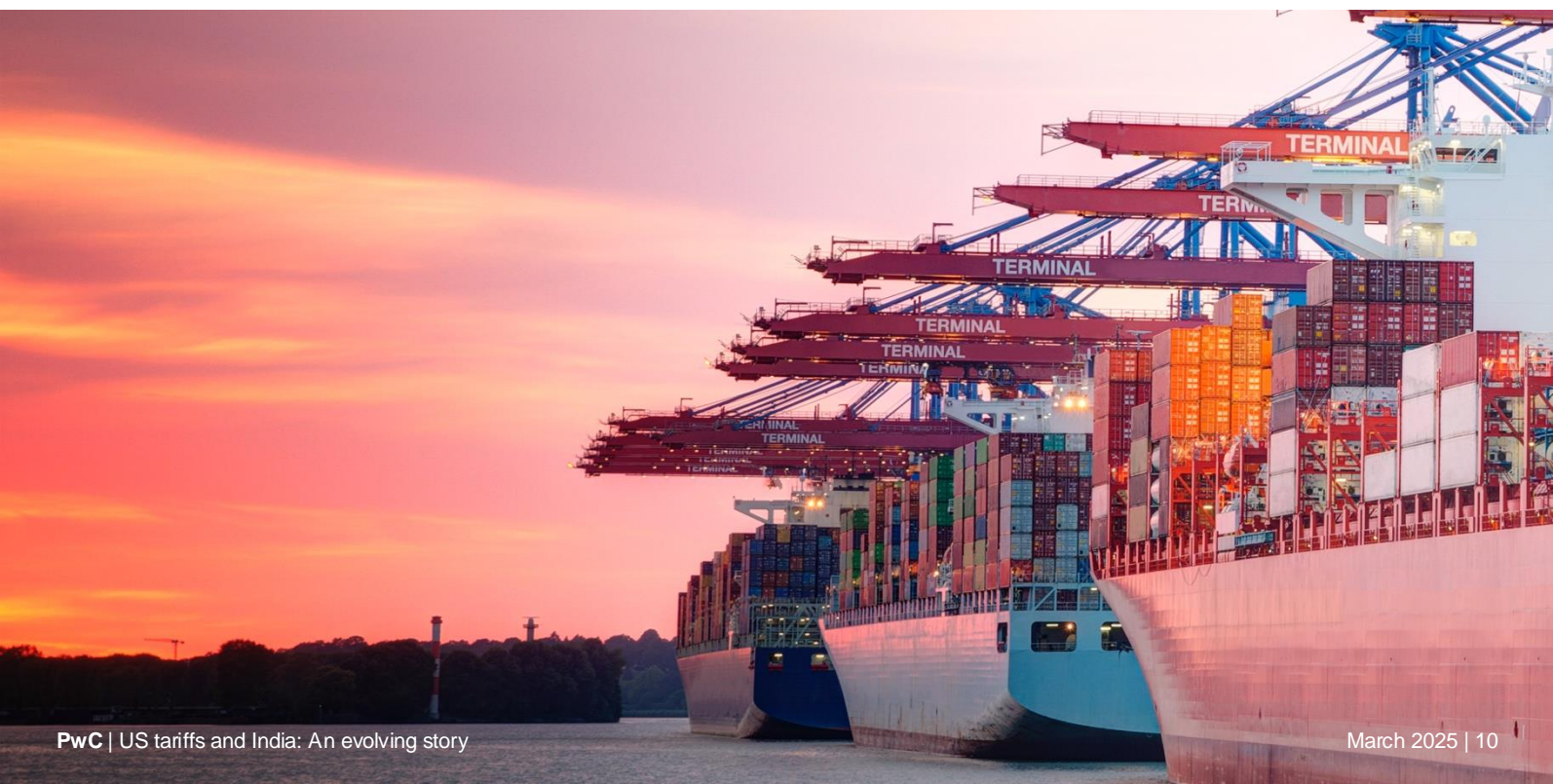
**Key Strategies:**

- **Stay updated and analyze the impact:** Businesses should continuously assess tariff developments and their anticipated impact on costs, pricing, and competitiveness. Undertaking initiatives for keeping the organization updated with evolving market scenario would prove to be beneficial in the longer run, including vis-à-vis its competitors.
- **Market Expansion:** Identifying alternative markets can help businesses mitigate losses from U.S. tariff hikes. To mitigate risks from US tariffs, Indian exporters can also proactively explore trade opportunities in markets with India's new and upcoming FTAs with UK, EU, Oman & Gulf region, New Zealand etc. to gain market access in new geographies and thus mitigate the risks due to the US Tariffs.
- **Supply-Chain Diversification:** Ensuring multiple points of procuring raw materials and components from multiple countries, alongside multiple markets ensure resilience against geopolitical disruptions.

**Example:** An exporter analyzing the cost impact of U.S. tariffs on specific product categories and adjusting pricing strategies or shifting production to tariff-exempt regions.

**Example:** A business previously focused on exporting textiles (HS Code 6203 - Men's Apparel) to the U.S. is exploring the EU and UK as alternative markets, leveraging the potential benefits of upcoming FTAs to ensure steady sales and reduce reliance on any single country.

**Example:** A company dependent on a single foreign supplier for critical components starts sourcing from multiple countries to minimize supply chain vulnerabilities.



### The concerns to the relevant stakeholders

#### Key Strategies:

- **Promptly voice your concerns to the government:** It is relevant to assess the direct impact of new tariffs on the industry. In this regard, businesses should ensure appropriate communication with the relevant Government stakeholders and highlight specific challenges in maintaining competitiveness. Prompt action on representation to the relevant stakeholders in government ensures that the government is aware of the concerns being faced and can appropriately action vis-à-vis the relevant trade partner.

**Example:** An exporter submits a representation to the Indian Government about the cost impact of U.S. tariffs on specific product categories and accordingly seeks waiver for certain product categories.

- **Suggest Solutions that the government can take up:** While highlighting the existing and evolving trade and market access concerns, businesses may also propose actionable measures such as tariff relief, trade deals, or sector-specific incentives.

**Example:** The pharmaceutical sector advocating for mutual recognition agreements (MRAs) on drug approvals between India and the U.S. to reduce regulatory hurdles. This could help Indian exporters gain faster market access despite tariff barriers, ensuring competitiveness in the U.S. market.

## 4 AWARE

**Stay updated and dynamic:** With trade policies shifting frequently, businesses must stay updated and adapt strategies dynamically, to ensure minimized negative impact and tap into created opportunities.

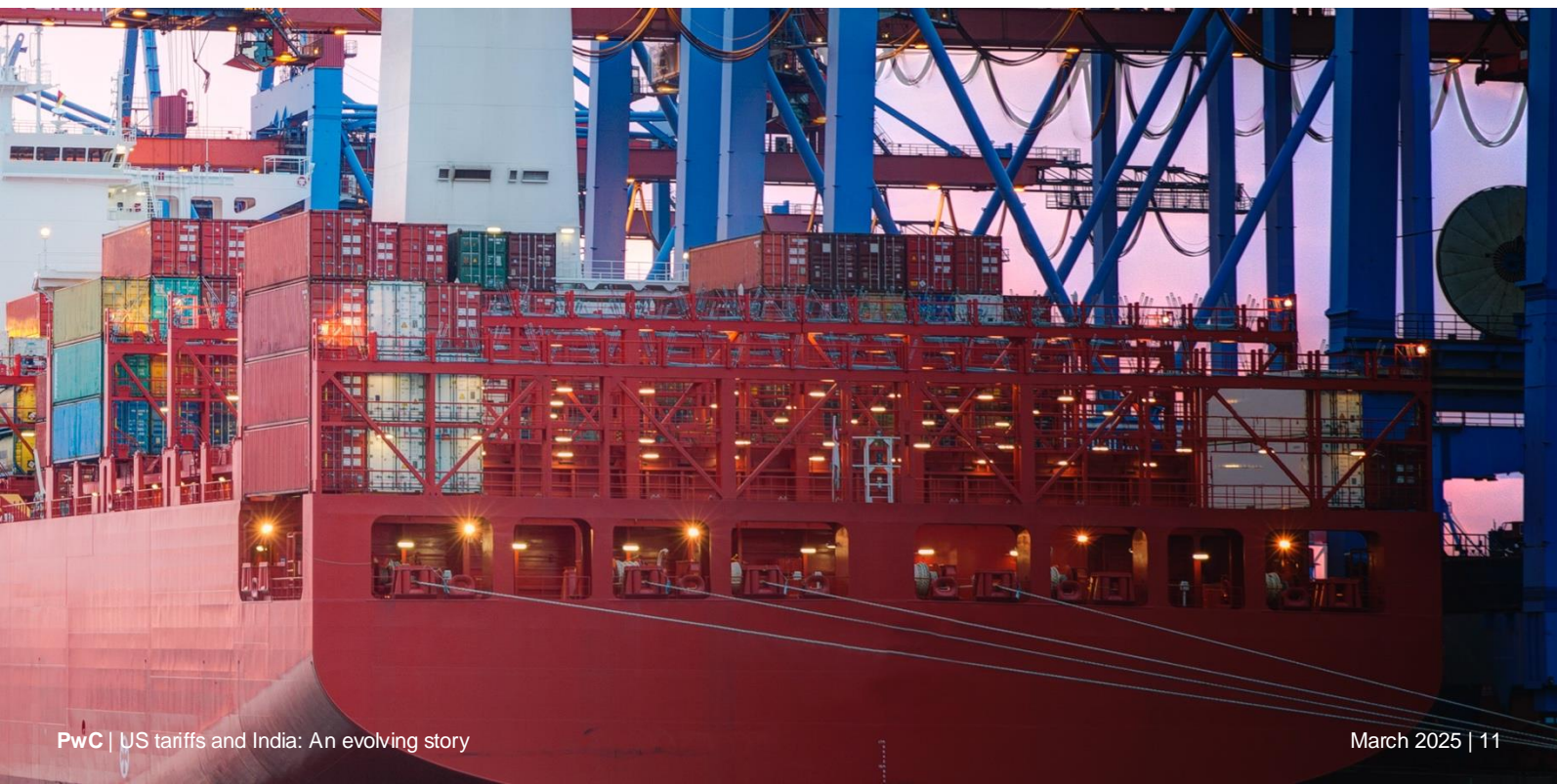
#### Key Strategies:

- **Regulatory Tracking:** Businesses should actively monitor policy changes and map the tariff and other forms of impact.

**Example:** A firm tracking global tariff shifts to adjust pricing strategies and avoid financial losses.

- **Operational Flexibility:** Adjusting product focus, pricing, and sourcing strategies helps manage tariff impacts effectively.

**Example:** A company shifting its product mix from raw exports to finished goods to qualify for lower tariffs in export markets.





## 4. Way Forward: How to begin with?

### 5 Reach out to Government

- Engaging with authorities to seek tariff/non-tariff relaxations under Indo-U.S. trade talks.
- Requesting product-specific tariff exclusions to minimize impact.
- Facilitating other trade agreements (Mutual Recognition Agreements, etc.).



### 4 Compliance and Regulatory Assessment

- Revisiting trade compliances, including origin checks and customs requirements
- Aligning transfer pricing and customs valuation to optimize duty structures.



### 3 Supply Chain Assessment

- Reviewing and optimizing supply chains through the usage of available trade instruments (FTAs, etc.)
- Developing alternative sourcing and manufacturing strategies to minimize tariff impacts.



### 2 Trade Risk Assessment

- Tariff impact analysis to assess cost implications and opportunities.
- Evaluating EXIM challenges (for e.g, identifying regulatory and procedural bottlenecks) arising from new U.S. trade policies.



### 1 Awareness and Capacity Building


- Stay updated on U.S. tariff changes and their implications.
- Conducting awareness sessions on evolving trade measures and their impact to align stakeholders with new trade policies.



**Table 2: India-US Economic Relations Year-on-Year (Value in USD Billion)**

| Trade Activities      | FY 2019-20 | FY 2020-21 | FY 2021-22 | FY 2022-23 | FY 2023-24 |
|-----------------------|------------|------------|------------|------------|------------|
| <b>EXPORT</b>         | 53.09      | 51.62      | 76.17      | 78.54      | 77.51      |
| %Growth               |            | -2.76      | 47.54      | 3.12       | -1.31      |
| India's Total Export  | 313.36     | 291.81     | 422.01     | 451.07     | 437.07     |
| %Growth               |            | -6.88      | 44.62      | 6.89       | -3.1       |
| %Share                | 16.94      | 17.69      | 18.05      | 17.41      | 17.74      |
| <b>IMPORT</b>         | 35.82      | 28.89      | 43.31      | 50.86      | 42.19      |
| %Growth               |            | -19.35     | 49.94      | 17.43      | -17.04     |
| India's Total Import  | 474.71     | 394.43     | 613.05     | 715.96     | 678.21     |
| %Growth               |            | -16.91     | 55.43      | 16.79      | -5.27      |
| %Share                | 7.55       | 7.32       | 7.07       | 7.1        | 6.22       |
| <b>TOTAL TRADE</b>    | 88.91      | 80.51      | 119.48     | 129.4      | 119.7      |
| %Growth               |            | -9.44      | 48.4       | 8.31       | -7.49      |
| India's Total Trade   | 788.07     | 686.24     | 1035.05    | 1167.04    | 1115.28    |
| %Growth               |            | -12.92     | 50.83      | 12.75      | -4.43      |
| %Share                | 11.28      | 11.73      | 11.54      | 11.09      | 10.73      |
| <b>TRADE BALANCE</b>  | 17.27      | 22.73      | 32.85      | 27.68      | 35.31      |
| India's Trade Balance | -161.34    | -102.62    | -191.05    | -264.90    | -241.14    |

Source: DGCIS



Data Classification: DC0 (Public)

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