

U.S. Imposes Reciprocal Tariffs on India

The United States has recently announced the imposition of new tariffs targeting several countries, including India, as part of a broader strategy to address trade imbalances and protect domestic industries. This newsletter provides an overview of the key aspects of these developments concerning India.

What Rate of Tariff Is Imposed on India?

Effective April 9, 2025, the U.S. has imposed a 26% reciprocal tariff on imports from India. This rate is part of a broader tariff regime that includes a baseline 10% tariff on all imports, with higher rates for countries identified as having significant trade imbalances with the U.S. The tariff actions derive authority from the Trade Expansion Act of 1962 and the International Emergency Economic Powers Act (IEEPA), with the aim of ensuring fair and reciprocal trade terms.

Reasons Behind Imposing Reciprocal Tariffs

The U.S. administration cites large and persistent annual trade deficits as a primary reason for the new tariffs. The lack of reciprocity in trade relationships, evidenced by disparate tariff rates and non-tariff barriers, has led to the hollowing out of the U.S. manufacturing base and dependence on foreign adversaries. The administration argues that these tariffs are necessary to address these issues and protect national and economic security.

Tariff Timeline and Impact on Indian Imports

A baseline 10% ad valorem duty on all imports came into effect from April 5, 2025, applicable to all goods unless specifically exempted. Further, from April 9, 2025, an additional country-specific reciprocal tariff of 26% has been imposed on imports from India and other identified trade partners under Annex I to the Executive Order. These duties are cumulative in nature unless the product falls under the exempted categories.

Notably, several product categories are excluded from both the 10% and 26% tariffs, including steel and aluminium articles, automobiles and auto parts, pharmaceuticals, semiconductors, lumber articles, energy products, and certain critical minerals. Goods already in transit before the effective dates are also excluded.

These developments are significant for India's trade relations with the U.S., and stakeholders should closely monitor the situation for any further changes or potential retaliatory measures.

Sector-Wise Implications in India

- **General Exports & Manufacturing:** Exporters outside of pharmaceuticals and automobiles will face challenges under the 26% tariff structure that could hurt export competitiveness and slow growth. These industries may include gems and jewellery, petroleum products, industrial machinery and capital goods export.
- **Textiles & Apparel:** A key export segment to the U.S., the new tariffs may lead to order cuts and margin pressures, especially for MSMEs.
- **Agriculture & Food Processing:** Tariffs on spices, processed foods, and seafood will impact rural supply chains and reduce market access.
- **Pharmaceuticals:** Although largely unaffected so far, regulatory scrutiny and compliances remain concerns.
- **IT & Digital Services:** While not tariffed, tensions over India's digital tax regime may trigger U.S. countermeasures in services trade or visa restrictions.

Other Affected Industries :

Gems & Jewellery	Exposure to luxury taxes, possible scrutiny on lab-grown diamonds	Focus on EU, UAE and Asian buyers; boost branding
Handicrafts	Tariffs + demand slowdown in ethnic gifts	Expand D2C models; use digital marketplaces
Chemical Products	Tariffs + safety compliance costs	Ensure safety compliance and standards

What Indian Businesses Must Do

1. Market Strategy

- **Diversify Export Markets:** Reduce over-reliance on the U.S. by expanding exports to the European Union (EU), Association of Southeast Asian Nations (ASEAN), Africa, and Australia. To ensure implementation, businesses should conduct region-specific market analysis, align product offerings with local regulatory standards, and forge new trade partnerships or joint ventures in these target regions.

2. Supply Chain & Manufacturing

- **Reorganize Supply Chains:** Invest in supply chain localization and backward integration to reduce cost impact. For effective execution, companies should map their current supply chains, identify vulnerabilities, collaborate with local suppliers, and leverage government incentives for domestic manufacturing.

3. Regulatory & Compliance Readiness

- **Obtain Global Certifications:** Ensure compliance with Hazard Analysis and Critical Control Points (HACCP) for food safety and production, Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) for use of chemical substances, and other applicable global standards for different commodities.

4. Government Incentives & Support

- **Leverage Indian Schemes:** Avail benefits under Remission of Duties and Taxes on Exported Products Scheme (RoDTEP) for refund of embedded taxes, Production Linked Incentive Scheme (PLI) for financial incentives to boost local manufacturing, and such other schemes to offset additional tariff costs.

- **Use SEZs & FTZs:** Export through Special Economic Zones or Free Trade Warehousing Zones to benefit from exemptions and better logistics.

5. Digital & Distribution Channels

- **Build D2C Channels:** Use direct-to-consumer platforms (like Amazon Global, Etsy, etc.) to bypass intermediary costs and reduce exposure to tariffs.

6. Engage in Policy Advocacy

- **Participate in Industry Bodies:** Collaborate with trade associations and chambers to advocate for sector-specific relief or policy support.

India's Possible Countermeasures

India may respond by:

- No retaliatory tariff as of now or India may reintroduce or revise tariffs on the certain goods from the U.S.

- Issue Quality Control Orders mandating compliance with Indian standards, a WTO-compliant tool to curb substandard imports, safeguard domestic industry, and strengthen its position in market access negotiations.

- Challenging the tariff at the WTO, citing it as a violation of MFN norms and a disruption to bilateral trade balances. While WTO rulings are often slow and may lack immediate enforceability, such action helps India build international pressure, align with similarly affected countries, and uphold global trade discipline.

- Deepening bilateral and regional trade agreements with EU, ASEAN, UAE, and Australia to offset dependency on the U.S.

- Strengthening domestic industry through strong policies.

Conclusion

The U.S. tariffs on Indian exports mark a pivotal moment in bilateral trade. While the near-term implications are challenging, proactive diversification, compliance, and strategic repositioning can help Indian businesses not only mitigate the impact but discover new growth pathways. The evolving trade environment calls for resilience, innovation, and collective advocacy to ensure India remains a leading player in global exports.