US reciprocal tariffs: What it means for India's trade

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Introduction

On 2 April 2025, US President Donald J. Trump signed executive orders[1] invoking emergency power under the International Emergency Economic Powers Act and the National Emergencies Act. He declared a national emergency to address persistent and rising US trade deficits. As a corrective measure, the US will impose a blanket 10 percent additional ad valorem duty on all imports, except specified commodities, effective 5 April 2025. Furthermore, higher differentiated country-wise reciprocal tariffs on specified countries, including India, will come into effect from 9 April 2025. Accordingly, the additional ad valorem reciprocal tariff shall increase from 10 percent to 26 percent on imports from India, as enumerated in Annex I[2] of the order, except specific exclusions.

[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/wp-content/uploads/2025/04/Annex-I.pdf

Overview of the U.S. Action

The executive order reflects the US administration's efforts to realign trade under its America First Trade Policy Presidential Memorandum.[3] The key actions include the following:

- A 10 percent ad valorem duty on all imports into the US, applicable from on or after 12:01 a.m. Eastern Daylight Time (EDT) on 5 April 2025, with the exception of the goods already loaded onto a vessel and in transit before that time. These goods will not face additional duties, even if they are entered for consumption after 12:01 a.m. on 5 April 2025.

- Starting at 12:01 a.m. EDT on 9 April 2025, an escalated country-specific reciprocal tariff regime will kick in, under which India will face 26 percent reciprocal tariffs (as outlined in Annex I). This will apply to goods entered for consumption or taken from warehouses for consumption. However, goods already loaded onto a vessel and in transit before that time are exempt from these duties, even if entered for consumption after the 9 April 2025 cut-off. These duty rates apply to all imports under current US trade agreements, with specific exceptions.

- Explicit exclusion of certain product categories,[4] listed in Annex II of the order (a total of 1,039 HS codes are included under 25 chapters) such as energy products, pharmaceuticals, critical minerals and semiconductors, from these tariffs have been announced.

- Additionally, derivative aluminium articles and derivative steel articles[5] and all automobiles and automotive parts[6] on which additional duties were imposed pursuant to section 232 of the Trade Expansion Act of 1962 are excluded from the additional ad valorem duty.

- A rule has been introduced to waive ad valorem duties on the US portion of products, provided that at least 20 percent of the product's contents (value) is of US origin, transferring the responsibility of proving compliance to exporters.

- According to Section 3(i) of the executive order, the reciprocal tariffs will apply notwithstanding the existing World Trade Organisation (WTO) commitments and override US trade agreement preferences/commitments.

[3] https://www.whitehouse.gov/presidential-actions/2025/01/america-first-trade-policy/
[4] https://www.whitehouse.gov/wp-content/uploads/2025/04/Annex-II.pdf
[5] Proclamation 10895 of February 10, 2025 (Adjusting Imports of Aluminum Into the United States), and Proclamation 10896 of February 10, 2025 (Adjusting Imports of Steel into the United States)
[6] Proclamation 10908 of March 26, 2025 (Adjusting Imports of Automobiles and Automobile Parts Into the United States)

The US's rationale behind imposing reciprocal tariffs on imports from India

The US has long critiqued India for its high average Most Favoured Nation (MFN) tariffs (17 percent, unweighted and 13 percent trade-weighted) and non-tariff measures, including customs procedures, product standards and licensing regimes. Some US positions that have found a special mention in the Executive order include:

- **Passenger vehicles:** US import tariff is 2.5 percent, while India imposes 70 percent.
- **Network switches and routers:**India imposes 10–20 percent tariffs, whereas the US imposes none.
- **Agricultural products:** Apples enter duty-free into the US, but India imposes a 50 percent tariff.
- **Rice in husk:** India levies tariffs up to 80 percent, while the US rate is under 3 percent.

India is also flagged in the 2025 National Trade Estimate Report[7] for imposing non-tariff barriers (NTBs) in sectors such as chemicals, telecommunications, medical devices and digital trade. The executive order has claimed that if a significant burden of NTBs was to be reduced, US exports to India would increase by at least US$5.3 billion annually.

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

Impact on Indian exports to the US

As India is included in Annex I of the executive order, Indian exporters face the prospect of a significantly higher ad valorem duty of 26 percent with effect from 9 April 2025. Key sectors likely to be affected include:

- **Textiles and apparel-** India exported over US$ 8 billion in textiles and garments to the US in 2024. With slim margins and high price sensitivity, even a 10–20 percent increase in tariffs could render Indian goods uncompetitive vis-à-vis countries with lower reciprocal tariffs. However, reciprocal tariff on apparel from Bangladesh (37 percent), Sri Lanka (44 percent) and Vietnam (47 percent) may result in providing comparative advantage to India over other Asian competitors.

- **Pharmaceuticals and active pharmaceutical ingredients (APIs)-** Although pharmaceuticals are largely exempt under the executive order, any overlap in formulation-based exports or medical devices not covered by exemptions could be impacted. Given India's dominant share in generic exports to the US, any re-classification risk or origin tracing under US customs could create compliance hurdles. It is also important to note that while most pharmaceutical products are exempted, it does not cover all formulations; APIs and medical devices may still be subject to the reciprocal tariffs.

- **Information technology and electronic components-** India's electronics exports (smartphones, routers, switches) are a growing segment. The US currently imposes 0 percent tariff on similar items while India imposes 0–20 percent. The reciprocal tariffs may have a negative impact on the competitiveness of Indian exports. However, India's semiconductor exports to the US have been gaining attention due to their strategic importance in global supply chains, and notably, semiconductors have been exempted from the additional ad valorem duty in the US.

- **Agricultural products-** India exports fish, shrimps, non-basmati rice, vegetable extracts and oils to the US worth around US$5 billion, which are likely to get impacted due to the 26 percent reciprocal tariffs.

- **Automotive components and two-wheelers-** Automobiles and auto components are mostly exempt from the additional ad valorem duty. However, they are also likely to get impacted as they are covered under Section 232 proclamations dated 26 March 2025, and are subject to 25 percent tariff.

Policy recommendations and the way forward

- **Use the proposed bilateral trade agreement discussions and the options provided under the executive order:** India can use existing institutional platforms to address the issue at a strategic level. India is expected to push for a faster conclusion of the proposed bilateral trade agreement, using the tariff escalation as both a point of negotiation and a trigger for broader structural dialogue. Tariff alignment, digital trade facilitation and mutual recognition of standards could form the bedrock of this re-engagement. Furthermore, India can explore the provisions under the executive order such as tariff modifications based on cooperative steps as an option to engage with the US authorities.

- **Tariff impact assessment studies:** Sectors can undertake a detailed tariff impact assessment to gain a thorough understanding of their supply chain, trade flows and contractual obligations in relation to increased tariff payments. It is essential to have clear and accurate import and export transaction data, along with visualised trade flow maps that include values, applicable duties by product category, manufacturers and countries of origin.

- **Assess comparative advantage:** Since many countries have been struck with an even higher reciprocal tariff, apparel being an example, there might be an opportunity for certain businesses to relook at their existing manufacturing footprints.

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