

## Background

On 2 April 2025, which the US administration is referring to as '**Liberation Day**', the US government announced reciprocal tariffs through the Executive Order dated 2 April 2025, targeting almost all trading partners. This move marks a significant shift in US trade policy, reinforcing US President Donald Trump's commitment to prioritizing domestic industry and rebalancing global trade dynamics.

## Effective tariffs on imports from all countries including India

- The US imposed additional tariffs on imports from all countries including India effective from 5 April 2025, at a baseline tariff rate of 10%. This rate will be increased to the rate mentioned in the Annexure I of the Executive Order dated 2 April 2025, for the respective countries, and will come into effect from 9 April 2025. For India, the applicable rate is 27%.
- Earlier also, the US had imposed a 25% tariff on non-US auto and non-US specified auto parts such as engines, transmissions, powertrain parts, and electrical components as per Executive Order dated 26 March 2025, with effect from 3 April 2025.
- Also, a tariff of 25% has been levied on all Steel and Aluminium imports in the US from all countries including India with effect from 12 March 2025.
- The imports from India will bear an additional 27% tariff over and above the current tariff levied by the US, while it is 34% for imports from China and 46% duty on imports from Vietnam as per the Executive Order of 2 April 2025. On imports from Mexico and Canada, the US levies 25% duty rate. India has a competitive advantage of 7% and 19% compared to China and Vietnam, respectively. However, most of the products imported from Canada and Mexico into the US are exempt under United States-Mexico-Canada Agreement (USMCA), which puts Mexico and Canada in an advantageous position compared to India.
- Generally, the ad valorem rates of duty set forth in this order shall apply only to the non-US content of a subject article, provided at least 20% of the value of the subject article is US originating.

## Key sectors excluded from reciprocal tariffs

- The US has exempted certain sectors from reciprocal duties, taking into account the critical needs from various countries for these materials. These exemptions ensure that specific essential resources remain unaffected by additional tariffs. The excluded sectors consist of products such as essential minerals, metals, pharmaceuticals, specified chemicals, and semiconductors. A detailed list of the relevant chapters can be found in **Annexure-II of the Executive Order dated 2 April 2025**.

Chapter	Chapter description
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, ...
29	Organic chemicals
30	Pharmaceutical products
44	Wood and articles of wood; wood charcoal
74	Copper and articles thereof
85	Semiconductor devices and its parts

## Impact on key sectors on goods exported from India to the US

### 1. Pharma sector:

ITC HS	India's export to US (US\$) <sup>1</sup>	Tariff before 9 April 2025 <sup>2</sup>	Tariff from 9 April 2025	Remarks
Chapter 30	US\$8.73 billion	0%	0%	<ul style="list-style-type: none"> <li>▪ There has been no major impact for the Indian pharma sector as the sector has been given exemption under the Executive Order Annexure II released on 2 April 2025.</li> <li>▪ Most of the products under Chapter 30 are covered under Annexure II of the Executive Order.</li> </ul>

<sup>1</sup> Data has been taken from DGFT Website for FY 23-24; web link <https://www.dgft.gov.in/CP/>

<sup>2</sup> The baseline tariff of 10% will be levied from 5 April 2025, however, the increased rate for each country will come into effect from 9 April 2025. In the table above, we have mentioned the tariff rate applicable from 9 April 2025

## 2. Auto sector:

ITC HS	India's export to US (US\$)	Tariff before 9 April 2025	Tariff from 9 April 2025	Remarks
Passenger Cars and Light Trucks (8702, 8703, 8704)	US\$51 million	2.50%	25%	<ul style="list-style-type: none"> <li>India's exports to the US are negligible, hence this sector is not in focus from the tariff perspective as of now.</li> </ul>
Auto Parts (8407, 8408, 8409, 8708)	US\$2.1 billion	2.50%	25%	<ul style="list-style-type: none"> <li>There has been a levy of 25% tariff on auto parts, which includes engines, transmissions, powertrain parts, and electrical components. This is expected to increase costs for Indian auto parts exporters.</li> <li>The 25% duty has been imposed on all countries, and there has been no duty arbitrage for India compared to Asian countries like China. As a result, this sector may face challenges in exporting goods.</li> <li>Therefore, the Indian government should seek a concessional rate when entering into a Bilateral Trade Agreement (BTA) with the US.</li> </ul>

## 3. Textiles sector:

ITC HS	India's export to US (US\$)	Tariff before 9 April 2025	Tariff from 9 April 2025	Remarks
Textile (Chapter 50 to 63)	US\$9.5 billion	6% to 9%	33% to 36%	<ul style="list-style-type: none"> <li>Although tariffs have been increased by 27%, raising challenges and costs for the Indian textile sector, India still has an advantage as countries like China, Vietnam, and Bangladesh face even higher tariffs than India.</li> </ul>

#### 4. Telecom sector:

ITC HS	India's export to US (US\$)	Tariff before 9 April 2025	Tariff from 9 April 2025	Remarks
Telecom (8517)	US\$6 billion	0%	27%	<ul style="list-style-type: none"> <li>The telecom sector faces high tariffs but remains competitive compared to China and Vietnam, who face higher tariffs.</li> <li>Solutions include Mission 500 and concluding the BTA deal by year-end. The government can also extend PLI benefits beyond 2026.</li> </ul>

#### 5. Gems and Jewellery sector:

ITC HS	India's export to US (US\$)	Tariff before 9 April 2025	Tariff from 9 April 2025	Remarks
Gems and Jewellery (7102, 7113)	US\$9.2 billion	5.5% to 13.5%	32.5% to 40.5%	<ul style="list-style-type: none"> <li>Although tariffs have been increased, raising challenges and costs for the Gems and Jewellery sector, India still has an advantage as countries like China face even higher tariffs than India.</li> <li>Due to USMCA, Canada and Mexico get a competitive advantage over India.</li> </ul>

#### 6. Oil and Gas sector:

ITC HS	India's export to US (US\$)	Tariff before 9 April 2025	Tariff from 9 April 2025	Remarks
Oil and Gas (Chapter 27)	US\$5.8 billion	5.20%	5.20%	<ul style="list-style-type: none"> <li>Most of Chapter 27 is excluded in Annexure II</li> </ul>

## 7. Agriculture and Food Products sector:

ITC HS	India's export to US (US\$)	Tariff before 9 April 2025	Tariff from 9 April 2025	Remarks
Agriculture (Chapter 1 to 21)	US\$5.5 billion	4% to 5%	31% to 32%	<ul style="list-style-type: none"> <li>▪ The agriculture sector is facing significantly high tariffs, creating challenges for growth and competitiveness.</li> <li>▪ While India remains more competitive compared to some of its counterparts, Canada, Mexico and Latin American countries have both a higher market share and lower tariffs. To support this sector, the Indian government should try to conclude the US-India BTA at the earliest as agriculture is a crucial sector for the Indian economy.</li> <li>▪ Due to USMCA, Canada and Mexico get a competitive advantage over India.</li> </ul>

## Conclusion

- In a nutshell, on most of the products exported from India to the US, now there is additional duty of 27% from 9 April 2025. Steel and Aluminium products will have an additional duty of 25%. Notably, tariffs on India are significantly lower than those imposed on China and Vietnam, by 7% and 19%, respectively. This difference presents a substantial opportunity for India's manufacturing industry, particularly in Telecommunications and Textiles, to expand its presence in the US market. Even with the tariffs, Indian products retain a competitive advantage over Chinese and Vietnamese goods due to the higher tariffs levied on those nations.
- Some sectors have been excluded by the US, such as essential minerals, metals, pharmaceuticals, specified chemicals, and semiconductors. India's pharmaceutical sector is expected to remain insulated from reciprocal tariff increases, as it has been exempted. This is a big relief for the pharma industry.
- Furthermore, while US-bound exports account for 18% of India's total exports, the impact of reciprocal tariffs is anticipated to be mitigated by potential supply chain shifts, creating new export opportunities for India in other countries including, the Middle East, Africa, Asia and Latin America.
- India has signed a trade agreement with European Free Trade Association (EFTA), which includes Iceland, Liechtenstein, Norway, and Switzerland. India is also accelerating discussions with the EU. Similarly, talks with the UK are also progressing, with both the FTAs expected to conclude by the end of this year. This will also open markets for India and help in reducing the challenges (if any) coming from the US.
- In light of Mission 500 (increasing US-India trade to US\$500 billion by 2030), India should conclude a multi-sector BTA with the US at the earliest so that the impact of current additional duties levied by the Executive Order of 2 April 2025 can be mitigated.

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