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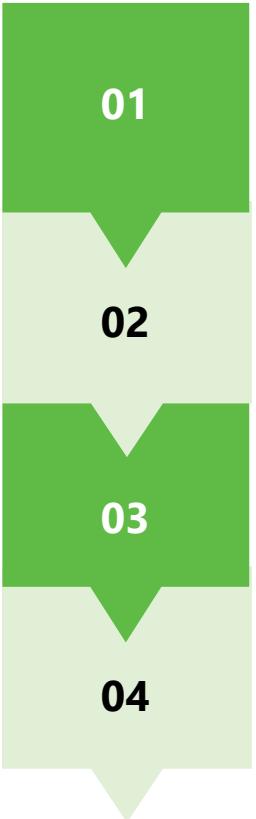
# MARC Insights

## Understanding USA Tariffs and their Impact on India

May 2025



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# Introduction

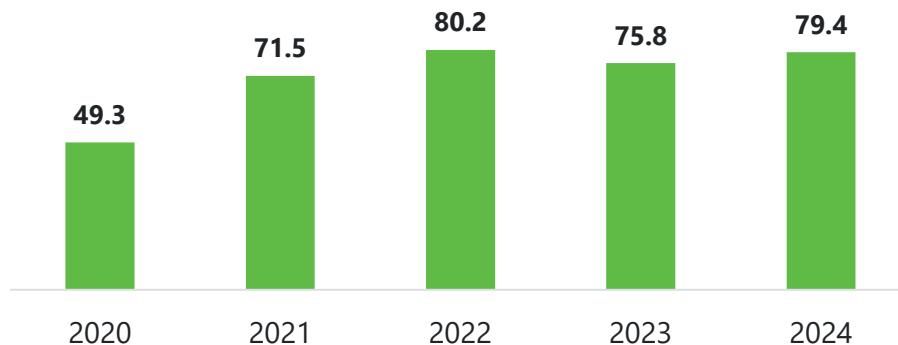
# Introduction of Trade Tariffs

Trump declared **April 2, 2025**, as "**Liberation Day**" for the USA and unveiled a comprehensive tariff plan aimed at multiple countries.

## Tariff and Reciprocal Tariff

- Tariffs are taxes on imports that make foreign goods costlier, encouraging people to buy local and boosting home industries, while also funding public services.
- When one country raises tariffs and the other retaliates with its own, it's called a reciprocal tariff—a trade "tit-for-tat."

## India's goods export to US over the years (In USD Billion)



Source- [Tradingeco](#) ,[Etimes](#) ,[BBC.com](#) ,[CBS NEWS](#) ,[Business Standard](#)

## Why Reciprocal Tariffs by USA?

### Fair Trade Belief

The USA introduced reciprocal tariffs to counter what it considered unfair trade practices by other countries. By matching the tariffs imposed on American goods, the USA aimed to create fairer trade conditions.



### Protecting USA Industries

The primary goal was to shield USA industries from being overwhelmed by cheaper foreign products. This would help encourage local production and support American businesses.



### Negotiation Tool

Tariffs were also used strategically as a way to pressure other countries into renegotiating trade deals and addressing trade imbalances, making the USA more competitive on the global stage.



# Why is the Tariff beneficial to the US?

## Made in America

Companies like Whirlpool have reported advantages due to tariffs, citing reduced foreign competition and a more level playing field for USA manufacturers.

## Tariffs and USA Industrial Reshoring

Tariffs have led to significant reshoring in industries like manufacturing and steel production, strengthening the USA economy.

## Tariffs Fill the Treasury

The USA government collected USD 15.9 billion in customs and excise taxes as of April 24, 2025, up from USD 9.6 billion in March, indicating that tariffs are generating substantial revenue.

## Fuelling the Future

Some studies suggest that tariffs can stimulate domestic production and manufacturing, potentially leading to economic growth and job creation.

## Potential for Tax Refunds from Tariff Revenue

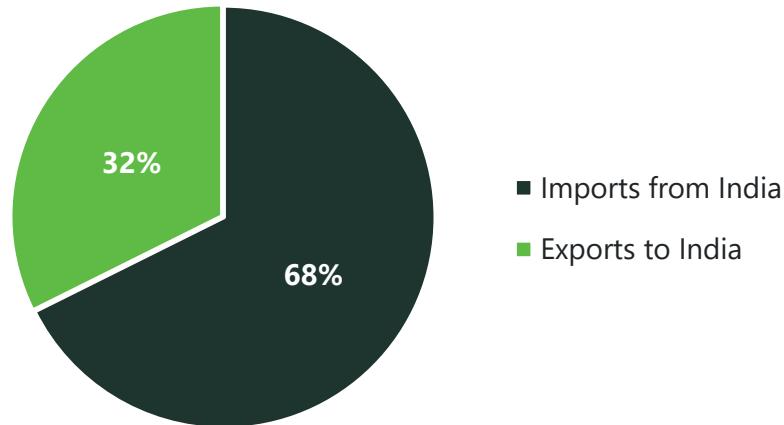
Tariff revenue from a 10% global tariff could generate USD 263 billion in new revenue, which could be used to provide substantial tax refunds to lower- and middle-income households.

# **India – US Trade Overview**

# Economic Landscape of India USA Trade (1/2)

India's total exports in FY24 stood at approximately USD 778.2 billion, comprising USD 437.10 billion in merchandise exports and USD 341.11 billion in services exports. The USA emerged as the top export destination, accounting for 18% of the total, equivalent to 2.2% of India's GDP.

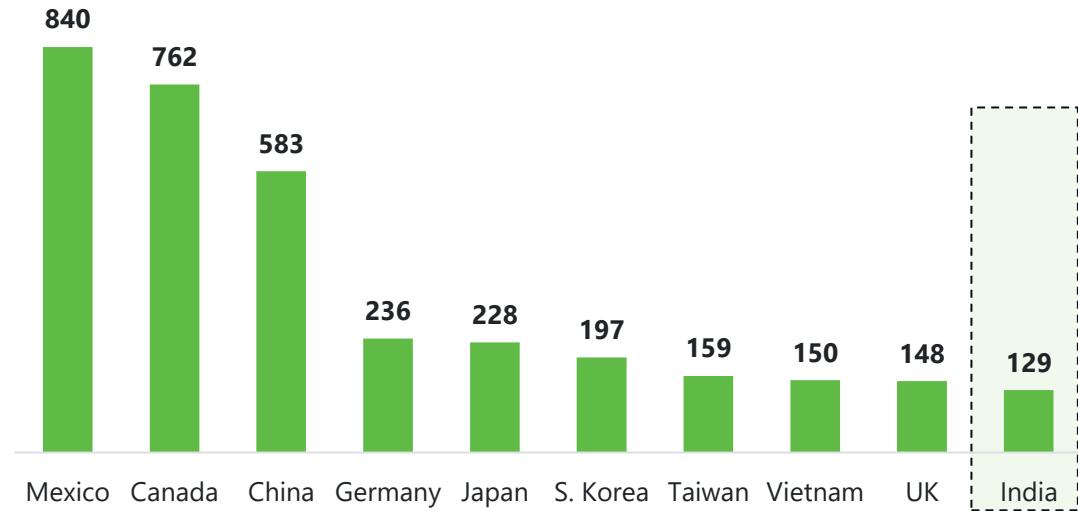
Total Goods Trade between USA and India (In USD Billion)



- In FY24, total goods trade between the USA and India reached approximately **USD 129 billion**, with a trade deficit of **USD 45 billion** as imports exceeded exports.
- The **trade deficit increased** by approximately **USD 2.4 billion (5.4%)** compared to FY23.

Source- [USTR indbiz.gov](https://ustr.gov)

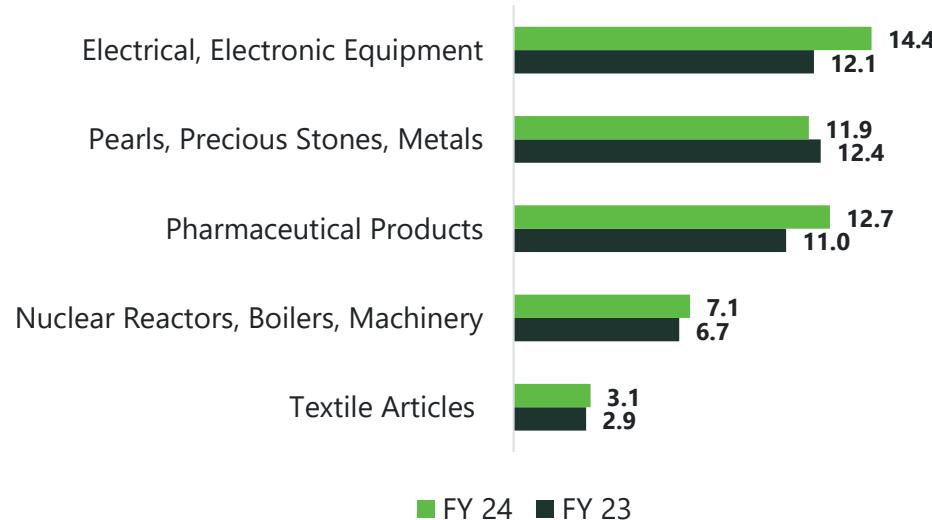
Largest Trading Partners of USA (In USD Billion)



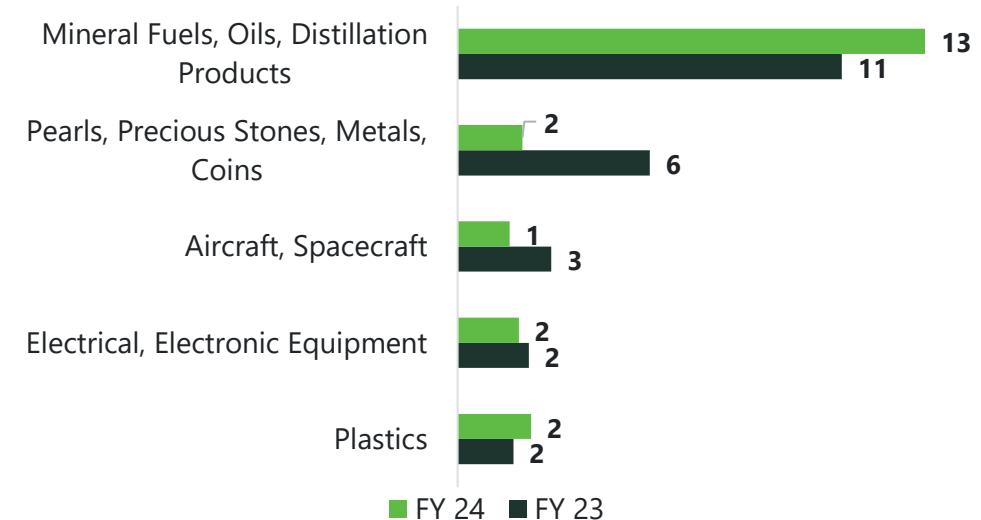
- The USA is one of India's top trading partners, with **bilateral goods trade valued** at approximately **USD 129 billion** in **FY24**. However, for the USA, India ranks only 10th among its trading partners.
- Mexico, Canada, and China are the top USA trading partners, together accounting for over **USD 2 trillion in total trade**.

# Economic Landscape of India USA Trade (2/2)

**USA Major Imports from India (In USD Billion)**



**USA Major Exports To India (In USD Billion)**



- The US was India's largest trade partner in 2024, although India ranked tenth in the list of US trading partners for the same year.
- United States total imports from India were **USD 91.5 billion** during 2024.
- USA's Top Imports from India were electrical equipment, Precious metals, Pharma products .

- USA is the 3rd largest investor in India with cumulative FDI inflows of **USD 67.76 billion** from April 2000-September 2024.
- United States Exports to India was **USD 41.75 Billion** during 2024.
- India imported **5,749 commodities** from the US in FY24.
- 'Make in India' has significantly increased domestic production of mobile phones, reducing the need for imports.

Source- [CNN Business](#), [tradingeconomics.com](#)

# **Impact of USA Tariffs on Indian Economy**

# Impact of USA Tariffs on Indian Economy (1/2)

The USA increased its tariff rate on Indian goods from the previous **5%–10%** range to a new reciprocal rate of **26%** including a 10% universal tariff on all imports

## Diamonds at Risk



Nearly 30% of India's gems and jewellery exports go to the US, but the new 26–27% US tariff—up from previous rates of 0% on diamonds and 5.5–7% on gold jewellery—could hurt Indian jewellery exports.

## Gears Grind in USA-India Trade



Trump has announced a 25% tariff on auto imports. India's USD2.6B auto parts exports to the US will be affected, and tariffs could soon extend to parts as well

## Pills Under Pressure



US imposes no tariffs on Indian pharma, while India charges 10% tariffs on US Pharma Imports. The pharma sector may face pricing pressure from US tariffs, but strong demand could soften the impact.

## Smartphones Face USA Squeeze



India's electronics exports—mainly smartphones—face risks from potential U.S. tariffs, which rose from 10% to 26%, potentially raising prices and dampening demand. Over 50% of India's electronics exports to the US consist of Apple iPhones assembled in India.

Source - [Ecotimes](#) , [Ecotimes](#) ,

# Impact of USA Tariffs on Indian Economy (2/2)

Recent USA tariff increases under the Trump administration are significantly impacting various Indian export sectors.

## Food Exports on the Boil



USA tariffs up to 38% threaten India's USD 3.8B shrimp, processed food, and dairy exports. Rising costs could impact farmers, processors, and coastal exporters, affecting rural livelihoods.

## Textile Trade Tension



Indian textiles and apparel, worth USD 9.6B in USA exports, face a 6.59% tariff hike. However, rising tariffs on competitors like China and Bangladesh could give India an edge, if reforms are implemented.

## Chemical Sector Crunch



India's chemical exports to the USA face risks from potential reciprocal tariffs. Analysts warn that higher duties could disrupt trade and profitability for this key sector.

## IT Sector Under Pressure



India's USD 283B IT sector, heavily reliant on USA clients, faces potential setbacks from Trump's proposed tariffs. Economic uncertainty could lead to reduced IT spending by USA firms, hitting giants like Infosys, TCS, and Wipro.

Source - [ThePioneers](#)

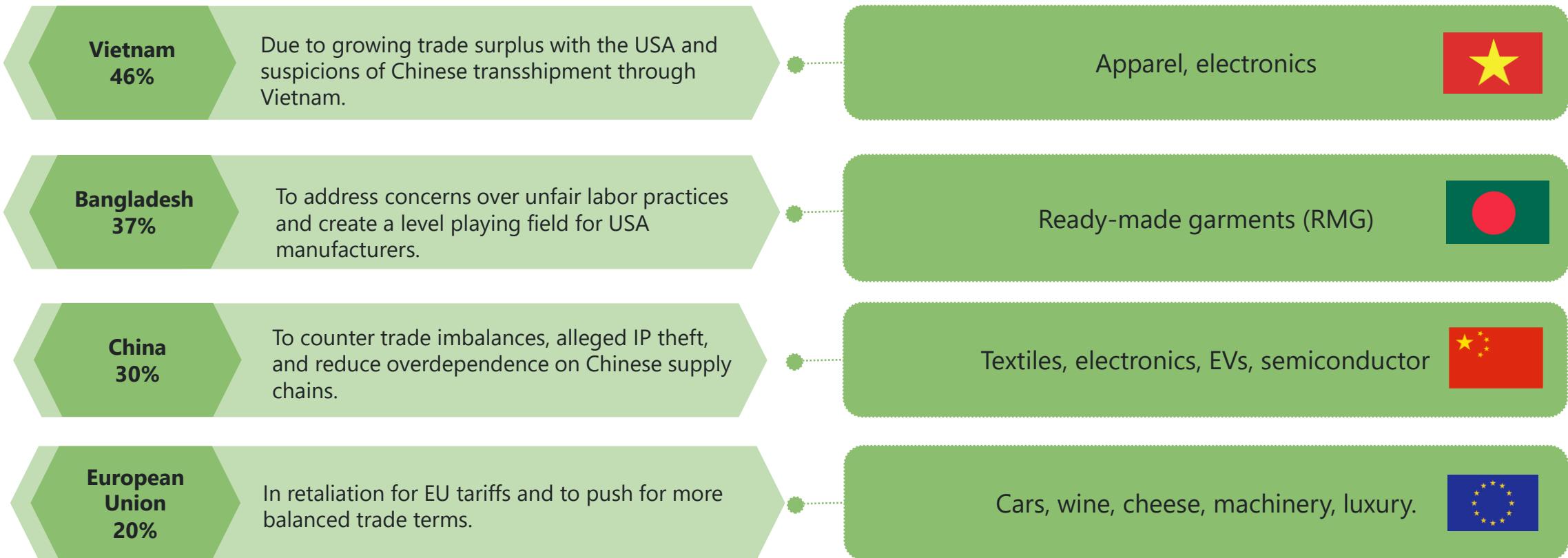
# **Opportunities, Global Tariff Trends & Key takeaways**

# Tariff on Other Countries and Impact (1/2)

Under the new **reciprocal tariff scheme**, the USA set a **temporary 10% base tariff** on all imports for 90 days except for **China**, which faced a **125% tariff**. However, on 12<sup>th</sup> May, the USA and China have agreed to suspend most tariffs, reducing China's reciprocal duties from 125% to 10%. However, the USA will retain 20% tariffs on fentanyl-related Chinese imports, keeping total tariffs on China at 30%.

## Tariff Gains: How USA Benefits from Global Duties

## Affected Sectors



# Tariff on other countries and Impact (2/2)

## ***Tariff Gains: How U.S. Benefits from Global Duties***

## ***Affected Sectors***

**Thailand  
36%**

To reduce trade deficit and encourage U.S.-based auto production.

Automotive parts, electronics



**Indonesia  
32%**

To limit imports from low-cost producers and protect domestic jobs

Textiles, footwear



**South Korea  
25%**

To curb steel overcapacity and reduce reliance on foreign electronics.

Steel, electronics



**Malaysia  
24%**

Over concerns of trade diversion and dominance in semiconductor packaging.

Electronics, machinery



# Opportunity for India



## New Routes, New Rewards

Expanding trade relationships through regional pacts like Regional Comprehensive Economic Partnership (RCEP) and free trade agreements with the EU and the UK can mitigate the effects of USA tariffs, opening new avenues for exports.



## Increase Export Competitiveness to the U.S

Indian products become relatively more attractive in the U.S. market due to higher tariffs on its peers like China, Vietnam, Bangladesh etc. Sectors likely to benefit include textiles, pharmaceuticals, chemicals, engineering goods etc.



## China Plus One: India's Moment

With foreign firms looking for alternatives to Chinese manufacturing due to continuing trade tensions, India has a lot to gain from foreign investment. The PLI schemes can act as a driver in this process, positioning India as a viable manufacturing destination.



## Potentially higher Foreign Direct Investment

Global firms seeking to bypass tariffs on Chinese and Vietnamese goods may relocate operations to India. This includes major players in electronics, semiconductors, and smartphones, supported by India's Production Linked Incentive (PLI) schemes.

Sources :- [TOI](#), [Ecotimes](#)

# Tariff-Driven Tailwinds for Indian Industries

Most Indian exporters are **better positioned to benefit** from a higher U.S. tariff regime, as all of India's peers face higher differential tariffs, such as China, Vietnam, and Bangladesh. India will emerge as a natural substitute in global supply chains due to its **large scale**, supportive **regulatory environment**, improving **infrastructure**, and **good geopolitical relationships** with the US and other major economies.

## Pharma (API, CRAMS)

China dominates the API and CRAMS markets due to cost and expertise, while India can benefit from lower tariffs and its strong generics, API parks, and CRAMS base. High-value injectables offer strong potential amid rising US demand and reliance on limited suppliers, mainly in China and the US.



## Textiles and Apparel

Bangladesh has historically had an advantage in the textile and apparel industry, mainly due to having **one of the lowest labour costs in Asia** and a focused textile ecosystem for ready-made garments. However, due to high tariffs, Indian manufacturers now stand a chance to gain market share.



## Specialty Chemicals

Heavy U.S. tariffs on Chinese chemical imports have prompted U.S. buyers to seek good alternatives. India is the **next best option** due to its chemical clusters, technical expertise, competitive costs, and fewer geopolitical risks. Many Indian players have also met **High compliance standards** e.g. REACH.



## Electronic Component Manufacturing

**Apple , Dell and many large global brands** want to shift their supply from China to India due to **tariff concerns** as well as **geopolitical tensions**, and desire to **diversify production bases**.



Source- [Drugpatents](#) ,[Reuters](#) ,[AE](#) Note : API – Active Pharmaceutical Ingredient , CRAMS - Contract Research and Manufacturing Services



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