

B2K **ECONOMY BYTES** **Trump's Tariff Thump**

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Tariff Impact on India-US Trade Relationship

Declaring a national emergency on 2 April 2025, US President Donald J. Trump imposed new tariffs on US imports from its global trading partners, including the largest ones, and made the following announcements:

- ❖ A 10% baseline tariff on all countries, effective 5 April 2025.
- ❖ An individualised reciprocal higher tariff on the countries with which the US has the largest trade deficits, effective 9 April 2025.
- ❖ United States-Mexico-Canada Agreement (USMCA), compliant goods will continue to see a 0% tariff, non-USMCA compliant goods will see a 25% tariff, and non-USMCA compliant energy and potash will see a 10% tariff.
- ❖ A 25% tariff on all foreign automobiles that will take effect from 3 April 2025.
- ❖ Certain goods will be exempted from the new tariff policies that are not available in the US.
- ❖ Steel and Aluminium import tariffs will remain at 25% and will not stack with the new tariff rates.

Excluded list of goods from the Reciprocal Tariff

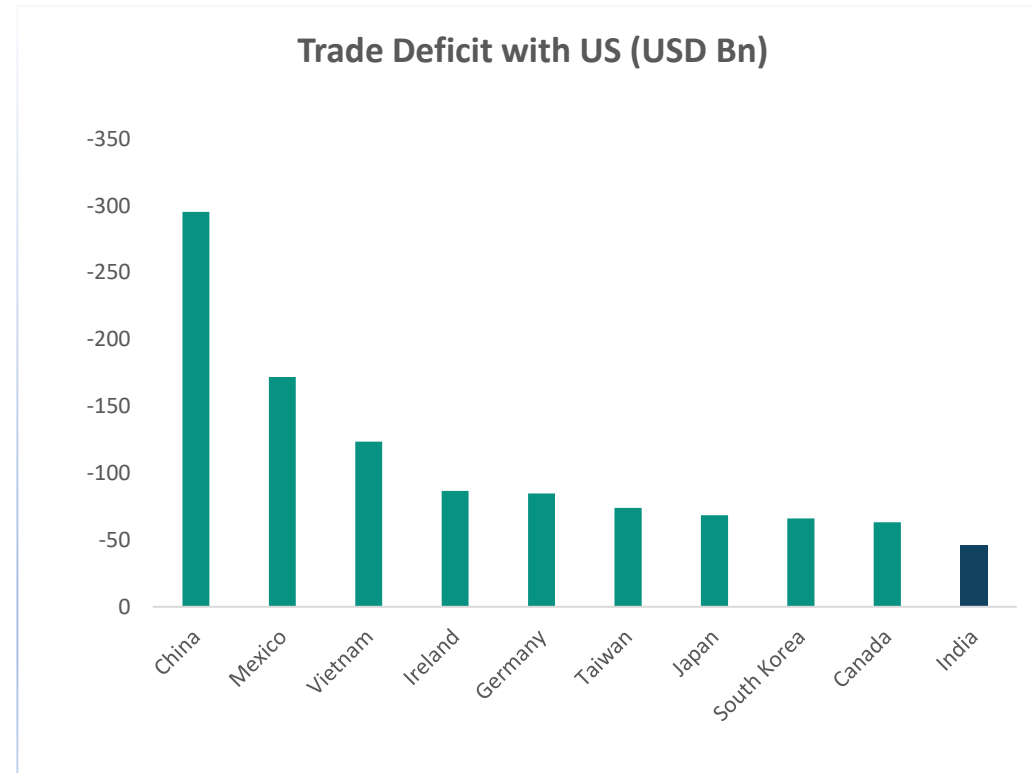
- 1) Articles subject to 50 USC 1702(b)*
- 2) Steel/aluminium articles and autos/auto parts already subject to Section 232 tariffs
- 3) Copper, pharmaceuticals, semiconductors, and lumber articles
- 4) All articles that may become subject to future Section 232 tariffs (allows the president to adjust imports- such as through the use of tariff)
- 5) Bullion
- 6) Energy and other certain minerals that are not available in the United States

*This clause specifies certain articles and transactions that are exempt from presidential regularity authority under the IEEPA.

Tariff on Major Trading Partners

The US has imposed custom tariffs on some of their largest trading partners with whom it has a deficit. China ranks first, while India is one of the Top 10 countries, with USD 46 billion trade deficit in 2024.

US Largest Trading Partners: Top 10 Countries				
Country	Exports (USD Bn)	Imports (USD Bn)	Deficit (USD Bn)	Tariffs (%)
China	143.55	438.95	-295.40	34
Mexico	334.04	505.85	-171.81	25*
Vietnam	13.10	136.56	-123.46	46
Ireland	16.54	103.29	-86.75	10
Germany	75.61	160.44	-84.82	20
Taiwan	42.34	116.26	-73.93	32
Japan	79.74	148.21	-68.47	24
South Korea	65.54	131.55	-66.01	50
Canada	349.36	412.70	-63.34	25*
India	41.75	87.42	-45.66	26



*USMCA-compliant goods are exempt. Data for 2024

Source: United States Census Bureau

Tariff on Indian Exports to US and its Impact

US has imposed the following new tariff rates on various Indian imported items.

Comparison of Old and New Tariff Rates on Major Commodities and its Impact					
Item	Share in Exports (FY2025)	Old	New	Note	Impact
Medical, leather, paper, glass, ships, aircraft and remaining categories	23.34%	2.79%	26%		Negative
Electrical, telecom, and electronic products	14.87%	0.41%	26%	Semiconductors are exempt	Negative
Textile and clothing	12.00%	8.99%	26%		Negative
Diamonds, gold and products	11.70%	2.12%	26%	Buillion is exempt	Negative
Pharmaceuticals	11%	0.01%	0%	Exempt	Neutral *
Products of iron, steel and base metals	5.86%	2.06%	26%	Iron and Aluminium imports will remain at 25%. Copper is exempt from tariffs	Negative
Agriculture, meat and processed food	5.48%	5.29%	26%		Negative
Ores, minerals and petroleum	5.46%	6.67%	26%		Negative
Chemicals except pharma	4.96%	3.39%	26%		Negative
Automobiles and auto parts	3.24%	1.05%	25%		Negative
Plastics, articles	2.09%	4.38%	26%		Negative

**US Economy could enter a slowdown reducing demand for pharmaceutical imports*

Source: Global Trade Initiative, Ministry of Commerce and Industry

What India Imports from the US

US President Trump has stated that the new tariffs will persist until the trade discrepancies between the US and it’s trading partners disappear. His aim is to reduce trade deficits with other countries.

US accounts only about 6% of India’s total imports and 18% of total exports. In FY2024, India recorded a trade surplus of \$35 billion.

Major Imports from US (USD Mn)			
Commodity	FY2024	FY2025 (Apr-Dec)	Share in FY2025
Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	12,964	11,305	32.30%
Natural or cultured pearls, precious or semiprecious stones, precious metals, clad with precious metal and articles thereof; imitation jewelry; coin	5,161	4,252	12.15%
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	3,752	3,196	9.13%
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts	2,384	2,400	6.86%
Optical, photographic cinematographic measuring, checking precision, medical or surgical inst. and apparatus parts and accessories thereof	1,944	1,523	4.35%
Plastic and articles thereof	1,632	1,210	3.46%
Aircraft, spacecraft, and parts thereof	2,256	1,206	3.45%
Ships, boats and floating structures	62	1,028	2.94%
Organic Chemicals	1,470	991	2.83%
Others	10,571	7,887	22.54%
Total Imports from US	42,195	34,998	
India's Total Imports	678,215	546,294	
US Share in Total Imports	6.22%	6.41%	

Source: Ministry of Commerce and Industry

What India Exports to the US

Items such as electronic goods, jewellery, pharmaceutical products, nuclear reactor materials and mineral fuels have the major share and comprise about 50% of the total export basket to the US.

Major Indian Exports to US (USD Mn)			
Items	FY2024	FY2025 (Apr-Dec)	Share for FY2025 (Apr-Dec)
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts.	11,081	8,927	14.87%
Natural or cultured pearls, precious or semiprecious stones, precious metals, clad with precious metal and articles thereof; imitation jewelry; coin.	9,949	7,025	11.70%
Pharmaceutical products	8,080	6,601	11.00%
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof.	6,167	4,942	8.23%
Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes.	5,833	3,274	5.46%
Articles of iron or steel	2,794	2,234	3.72%
Other made -up textile articles; sets; worn clothing and worn textile articles; rags	2,782	2,198	3.66%
Articles of apparel and clothing accessories, knitted or crocheted	2,504	1,990	3.32%
Vehicles other than railway or tramway rollingstock, and parts and accessories thereof	2,648	1,945	3.24%
Organic chemicals	2,408	1,898	3.16%
Others	23,271	18,990	31.64%
Total Exports to US	77,515	60,025	
India's Total Exports	437,072	322,335	
US Share in Total Exports	17.74%	18.62%	

Source: Ministry of Commerce and Industry

How India's trade will be impacted?

US president has decreed that these rates will be maintained until the perceived threat to the US economy from its foreign trade partners is resolved. New tariffs will have a significant blow on the Indian economy because the US is a significant trading partner for India, and it accounts for 18% of India's exports.

Negatives

- Electronic goods, jewellery will be hit the hardest by the new tariffs, as these products become more expensive in the US.
- The 25% tariffs on all foreign automobiles will cause a significant fall in demand for Indian automobiles.
- The items which are excluded from the new tariff rates may remain unaffected. However, potential slowdown in US due to the expansive tariffs it has placed on imports from all its trading partners could dampen the demand for pharmaceutical products which make up at least 10% of India's total exports to the US.
- These new tariff rates will have a major impact both on the Indian economy and the global economy due to the US's status as a global trade partner.

Potential Opportunities

- Although there is a strong chance that Indian exports to the US will face a significant decline, the relatively higher tariff imposed by US on China could benefit Indian sectors such as electronics, automobiles and pharmaceuticals.
- While it is likely that India will see a downturn in demand for Indian exports, other trading partners of the US were hit with far larger tariffs such as China with a tariff rate of 54% and Vietnam with 46%. The demand for imports from these countries could shift to India which has far lower tariffs than these countries.
- The new tariff rates could potentially cause a slowdown in the US economy causing investors to seek foreign markets such as India.

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