Beyond the US tariff pause lie threats of global slowdown, supply glut. For India, some opportunities

India can increase its export share in certain sectors, like textiles, footwear, toys, as its key competitors face steeper tariffs. Smooth trade deal negotiations with US may also help.

Radhika Pandey and Pramod Sinha 11 April, 2025

On 2 April, US President Donald Trump announced the implementation of reciprocal tariffs on about 60 countries, escalating global trade tensions. On 9 April, the US administration announced a temporary pause on the implementation of the additional tariffs, while retaining the 10 percent baseline, but raised duties on Chinese imports to125 percent.

The tariff-led sell-off of US treasury bonds by foreign investors and the consequent sharp surge in US bond yields at the long end of the curve may have fuelled the decision to pause the roll-out of tariffs. While this may have lessened the immediate pain, the cost of uncertainty will deter long-term investment engagements and continue to weigh on growth.

Beyond the pause, India faces a 26 percent tariff on its merchandise exports to the US. Sectors, such as gems & jewellery, electronic products and engineering goods, are likely to take a hit to their export revenues.

However, India has an opportunity to increase its export share in specific sectors, like textiles, footwear, furniture, and toys, as India's key competitors face steeper tariffs. Additionally, exemptions to sectors like pharmaceuticals, semiconductors and energy for now will provide relief. The impact of the tariffs could also be cushioned, if India is able to gain relief under the ongoing bilateral trade negotiations with the US.

In addition to the obvious hit to exports and growth, the indirect effect of tariff-induced global growth slowdown and the threat of global supply glut due to potential retaliatory actions by countries, particularly by China, could emerge as a bigger concern.

Reciprocal tariffs: Sector impact

India's exports to the US stood at USD 78 billion in FY24. Electronic goods accounted for the largest share at 13.5 percent, followed by gems and jewellery (12.78 percent), pharmaceuticals (11.27 percent), and machinery and instruments (9.05 percent).

While pharmaceuticals and energy are exempt from tariffs for now, gems and jewellery are particularly vulnerable to tariffs as the US accounted for 30 percent of India's exports in that sector. There could be a shift in market share to exporters, who are subject to lower tariffs than India.

India's electronic goods exports could benefit from steeper tariffs on China. China accounts for almost 26 percent of US' imports of electric machinery. The other key exporters are Mexico, Vietnam, Taiwan, Malaysia, Thailand and South Korea. Some of these countries are subject to higher tariffs than India.

India has the scope to increase its export share in textiles and readymade garment exports. China, the biggest exporter in this space, faces a tariff of 54 percent. Vietnam (46 percent), Cambodia (49 percent) and Bangladesh (37 percent)—the other key exporters—face much steeper tariffs than India. Lower tariff of 26 percent offers competitive advantage, but India needs to ramp up its capacity to fill in the gap.

There is a window of opportunity in sectors, such as footwear, furniture and toys, as key exporter countries, like China, Vietnam and Taiwan, are subject to higher tariffs than India.

Currently, India's share in US imports in these products is small. Tariff differential offers a strategic opportunity to Indian exporters to expand their market share. For instance, for the US footwear market, China and Vietnam are the biggest suppliers. Higher tariffs on these countries could prove to be a major advantage for Tamil Nadu, India's emerging footwear hub. The table below outlines some of the sectors, where countries subject to higher tariffs than India have a sizable presence, and thus offer potential advantage to India.

SECTOR-WISE SHARE OF COUNTRIES WITH HIGHER TARIFFS THAN INDIA IN U.S. IMPORTS

HS 2 Digit	Share of Countries (Tariff differential > 0)	Top Exporting Countries
Footwear, Gaiters	45.5	China, Vietnam, Indonesia, Italy, Cambodia
Apparel Articles & Accessories, Knit or Crochet	30.2	China, Vietnam, Cambodia, India, Indonesia
Rubber & Articles Thereof	29.4	Thailand, Mexico, Canada, China, Japan
Apparel Articles & Accessories, Not Knit Etc.	29.2	China, Vietnam, India, Indonesia, Mexico
Furniture; Bedding	27.7	China, Vietnam, Mexico, Canada, Italy
Electric Machinery Etc; Sound Equip	21.9	China, Mexico, Vietnam, Taiwan, Malaysia
Nuclear Reactors, Boilers, Machinery	20.3	China, Taiwan, Japan, Germany, Canada
Nat Etc Pearls, Prec Etc Stones	19.6	Switzerland, India, Canada, Mexico, Italy
Toys, Games & Sport Equipment	13.3	China, Vietnam, Mexico, Taiwan, Japan
Articles Of Iron Or Steel	12.2	China, Mexico, Canada, Taiwan, South Korea

Source: International Trade Administration (ITA)

ThePrint

The US is a significant destination for auto parts. The 25 percent levy could dampen India's exports of auto parts. However, given that the tariff is uniform across countries, trade is unlikely to shift from India to other countries in the immediate term.

Several unknowns & risk of dumping

There are several other considerations that will determine the final impact of tariffs. With the temporary pause in place, countries will strive to strike a deal. Countries having higher exposure to US markets could offer higher flexibility. This could offset some of the potential gains to India.

Some countries could also engineer a currency depreciation to offset the impact of tariffs. China's currency is showing signs of weakness since the rollout of the tariffs. India would have to tolerate a weaker rupee, if tariffs continue to trigger Yuan depreciation.

In addition, China is experiencing significant deflation. Its producer price index is in negative territory and the consumer price index has also slipped into a contraction zone. China is likely to respond through margin compression, currency devaluation and export of deflation. With an exorbitant 125 percent tariff, there is a big fear of China diverting some of its cheap products to India.

In addition to India's steel market, sectors like plastic, paper products, rubber and graphite are at increased risk of dumping as both the US and India serve as key markets for China.

CHINA'S EXPORTS TO U.S. & INDIA

Commodity	China's share in India's imports	China's share in U.S imports
Artificial resins, plastic materials	25.0	26.0
Paper and paper board	19.8	13.9
Rubber products	12.5	7.0
Graphite	48.3	59.7

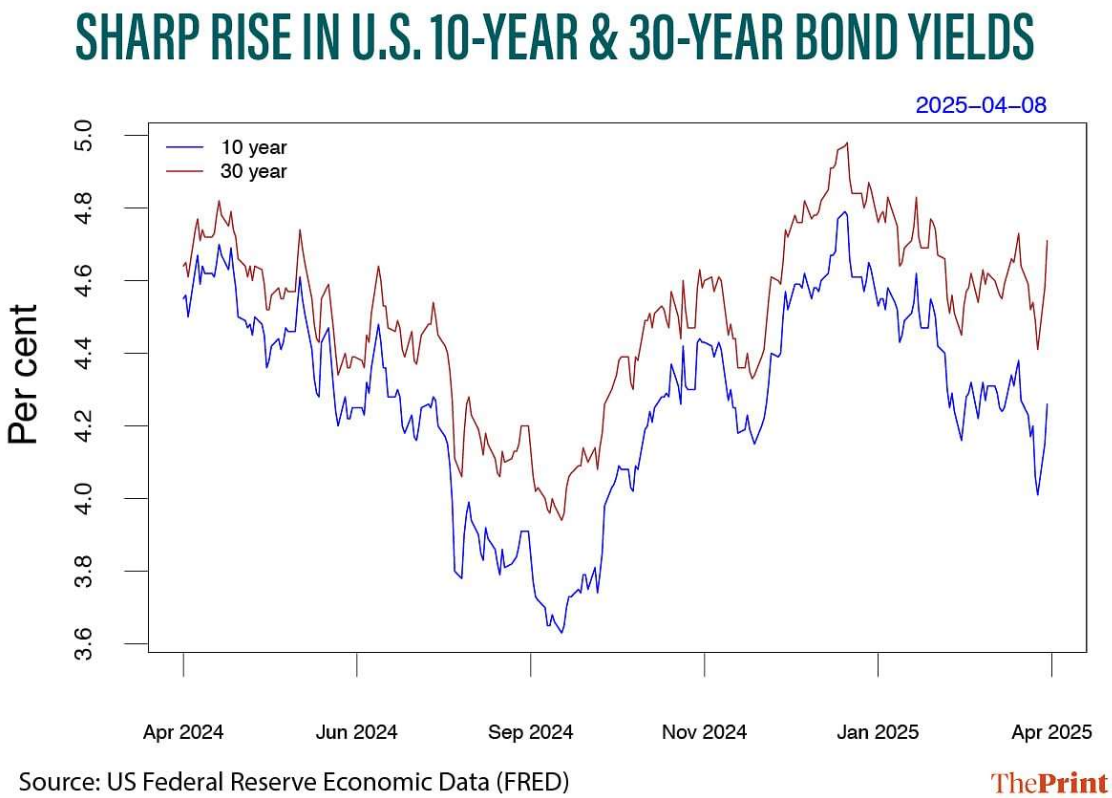
Source: CMIE Economic Outlook, International Trade Administration ThePrint

Sharp sell-off in govt bond market

In a period of uncertainty, investors shift their money to US government bonds. This demand drives bond prices up and yields down. But this conventional playbook is not materialising this time.

A major fallout of the escalation of duties has been a sharp sell-off in the government bond market, raising questions on the safe haven status of US treasury bonds.

The erratic announcements on tariffs may have dented the appeal of these bonds. This could have been one of the triggers for announcing a halt on reciprocal tariffs, which also provides breathing space for US importers to realign their supply chains through negotiations with prospective suppliers.



Growth concerns outweigh inflation

With the intensification of trade war, recession risks in the US have risen considerably. Most of the top investment banks have raised their forecast for the possibility of a recession. The trade war has complicated the task of the US Federal Reserve as tariffs are likely to raise inflation and lower growth.

The tariff announcements have cast uncertainty on policy decisions of the central banks of emerging economies. The Reserve Bank of India has rightly shifted focus on growth by slashing the policy rate and changing stance to accommodative. Going forward, a deeper rate cut cycle is likely to support growth.

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Views are personal.