



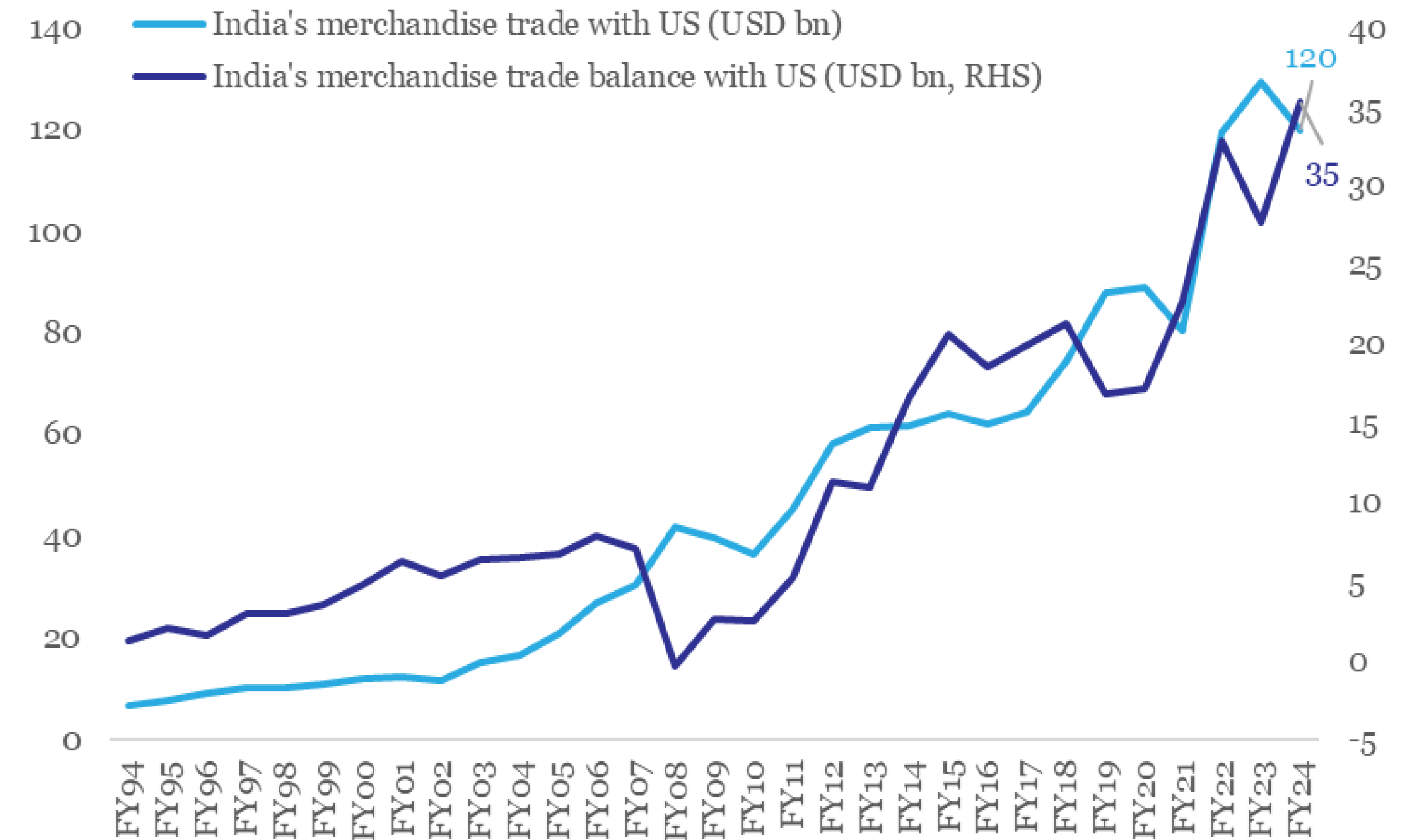
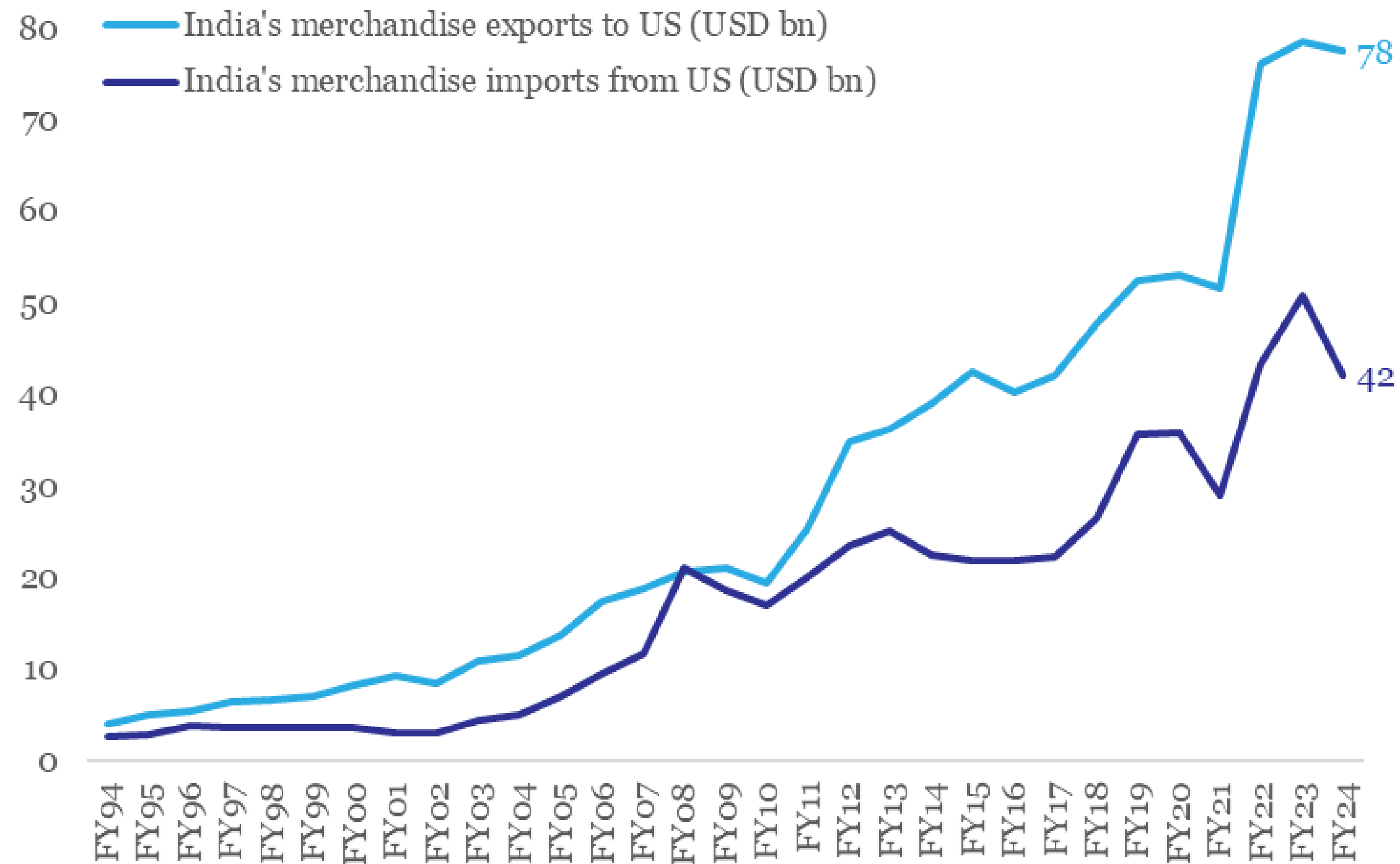
US-India Trade and Tariffs: Walking through the maze

Feb 21, 2025



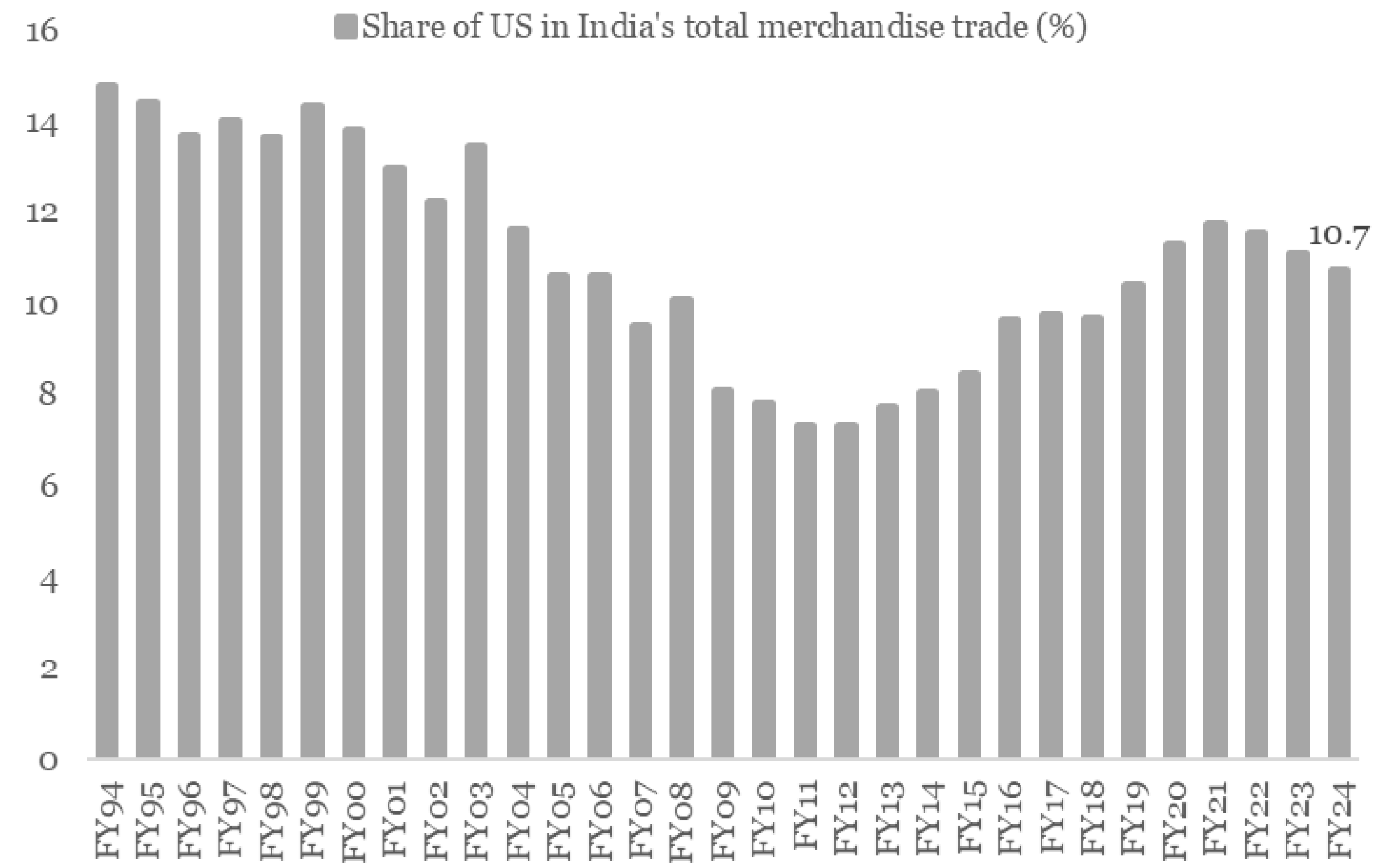
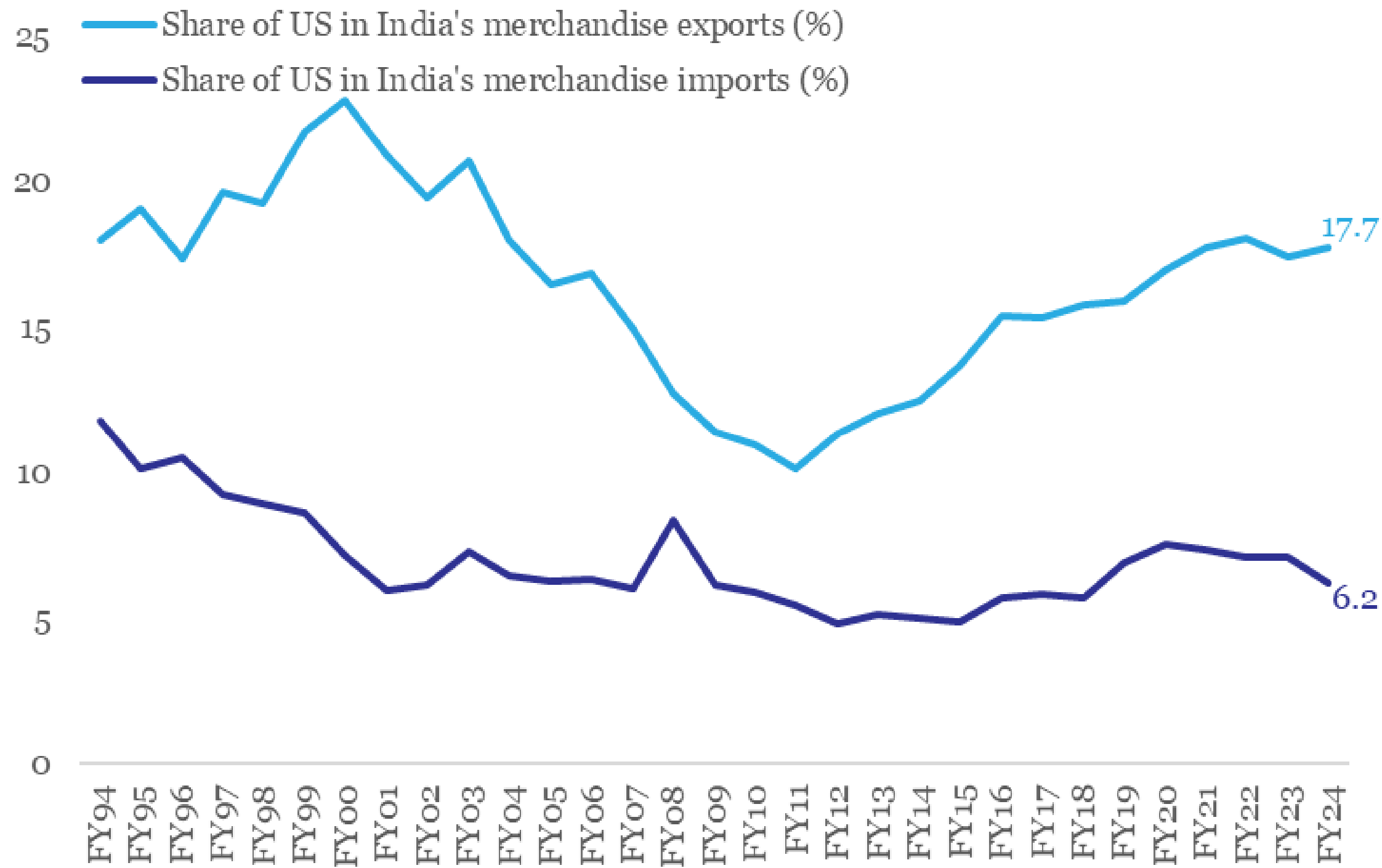
India and US: Overview of trade and tariffs

Overview of India-US merchandise trade



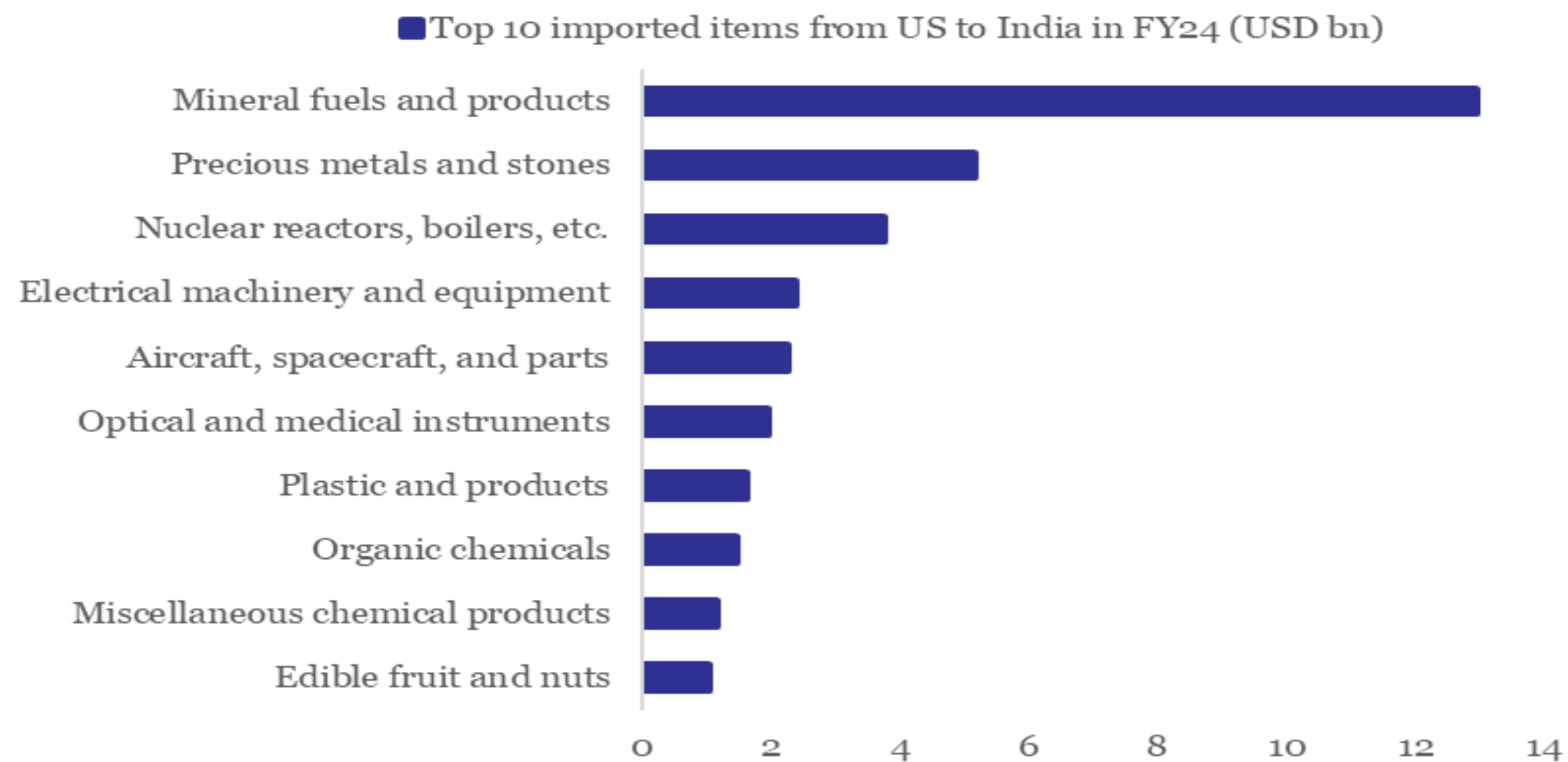
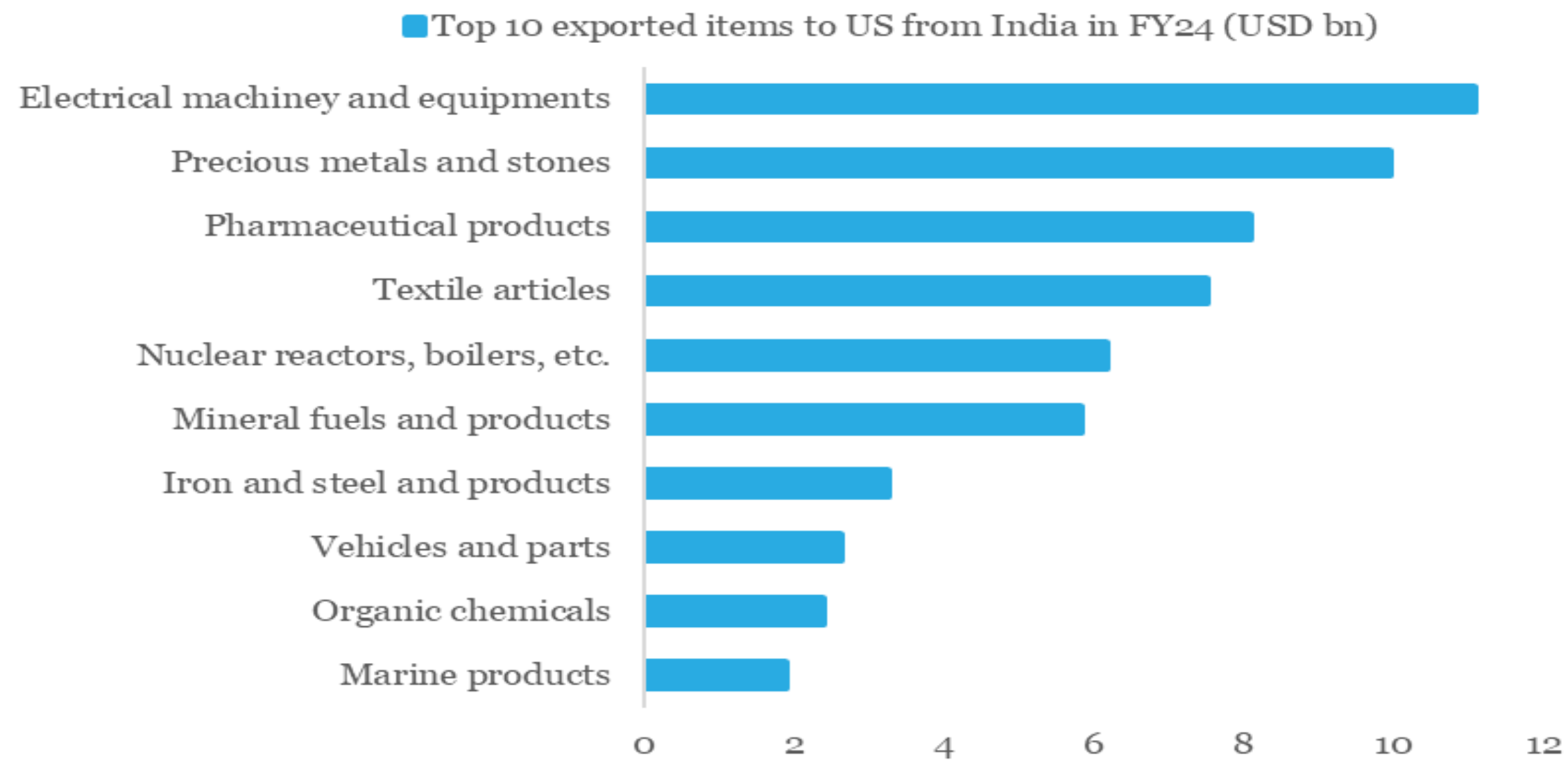
- India had a minor merchandise trade deficit with US in FY08. Since then, India has always run a trade surplus with US (FY24: USD 35 bn).
- Since the previous Trump regime in FY18, India's exports, imports, and hence total merchandise trade with US has expanded 1.6x, while its trade surplus has risen by 1.7x

Overview of India-US merchandise trade (contd')



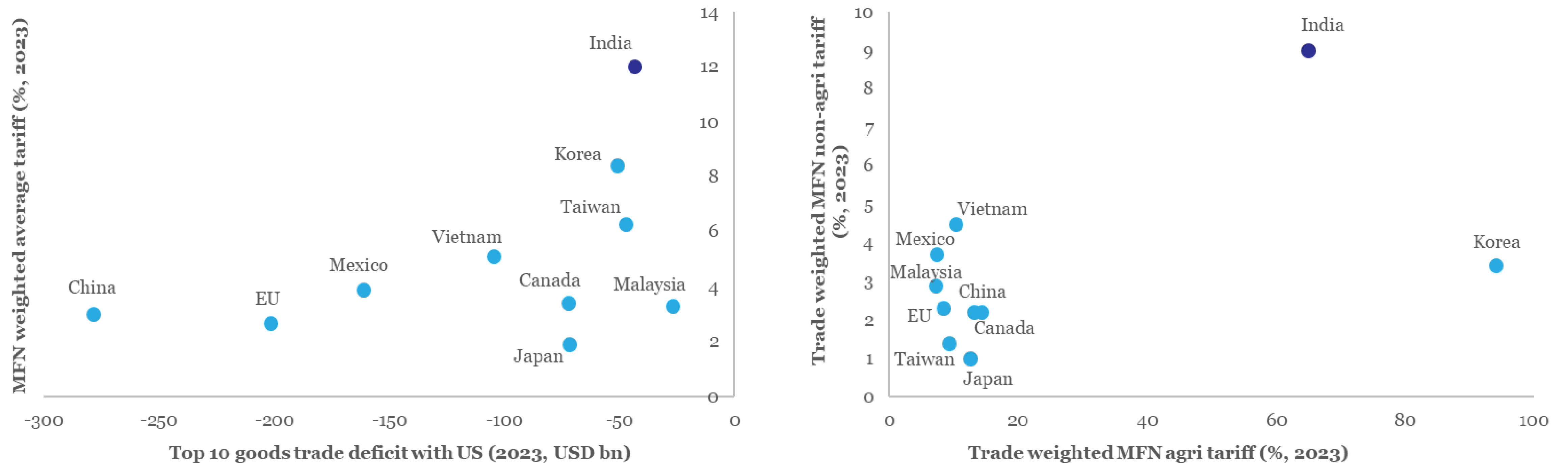
- Share of US in India's merchandise exports has climbed up from its low of 10.1% in FY11 to 17.7% in FY24
 - However, it remains lower than its peak of 22.8% in FY00
- Share of US in India's merchandise imports has been on a gradually moderating path – compared to a peak of 12.1% in FY91, it currently stands at 6.2% in FY24
- Although the share of US in India's merchandise trade has improved to 10.7% in FY24 from its low of 7.3% in FY12, it remains considerably below its peak of 14.8% in FY94

Bird's eye view of the composition of India-US merchandise trade



- Top 10 items contributed 76% to India's exports to US
- Top 10 items contributed 80% to India's imports from US
- Textile, Pharma, Electronics, Engineering goods, and Gems & jewellery contribute majorly towards India's trade surplus with US

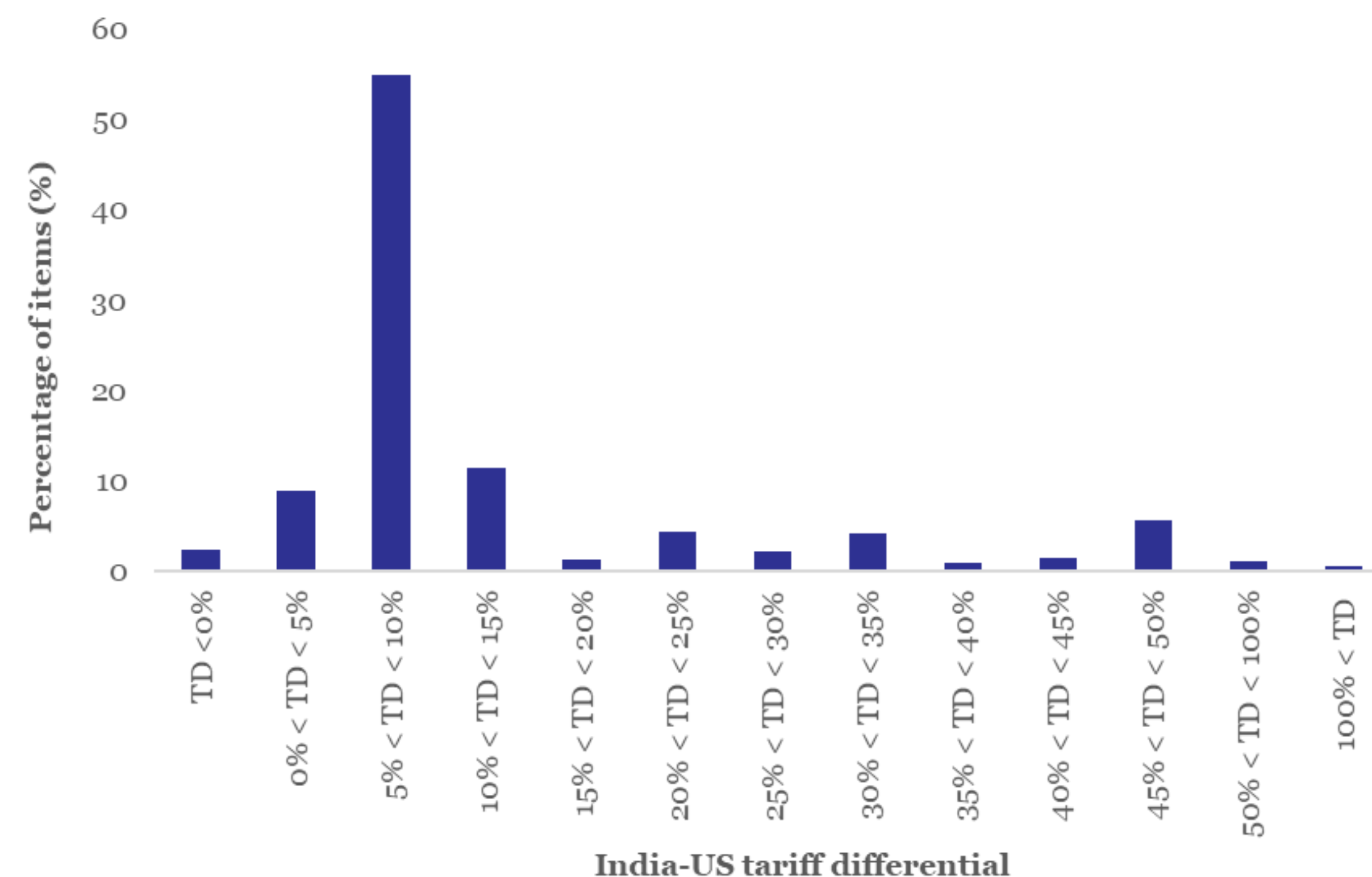
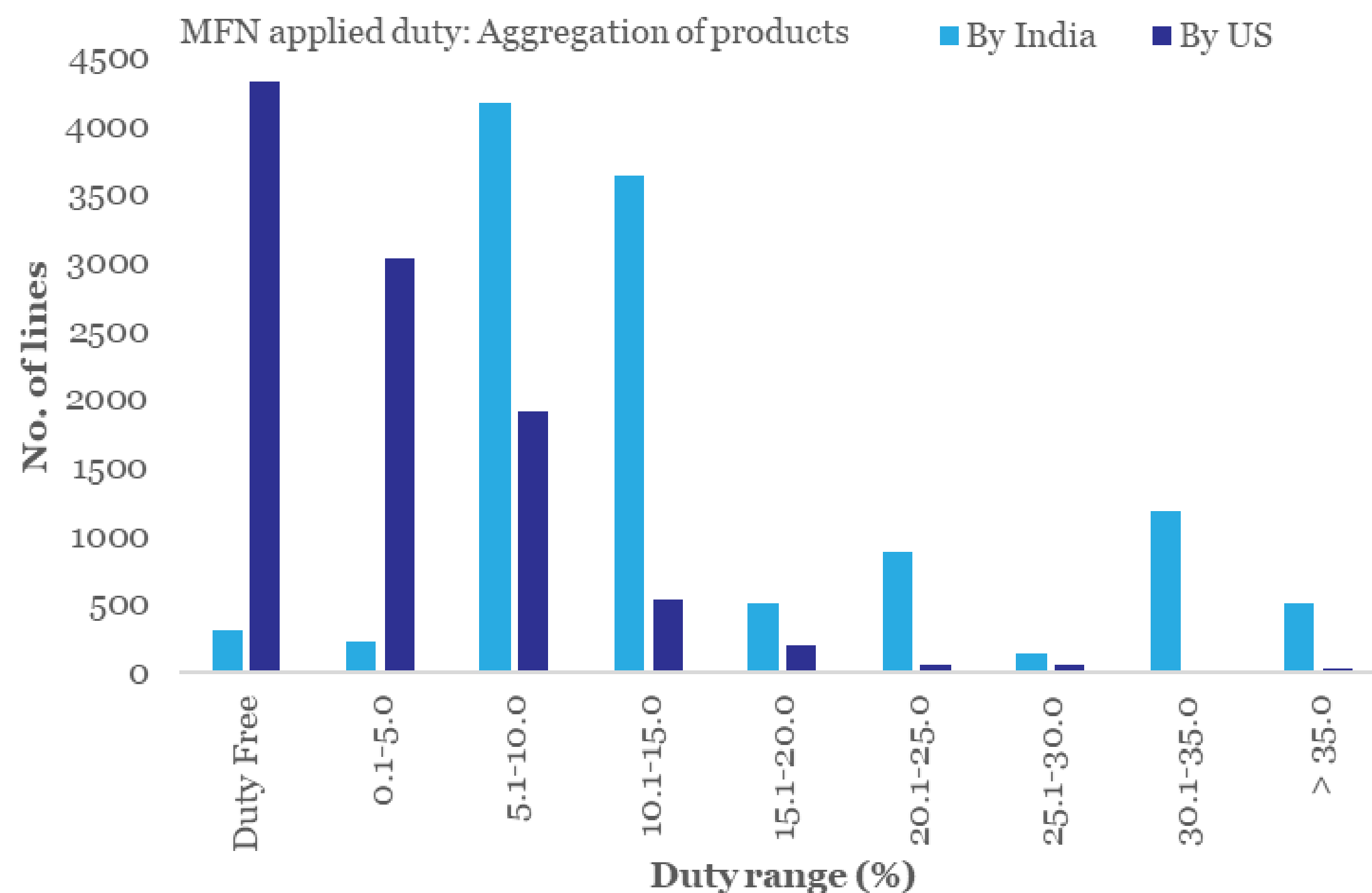
Tariff scan of key trade peers for US



- As of 2023, out of the top 10 countries with which US had a goods trade deficit, India stands out as the one with the highest level of tariff (12.0%) vis-à-vis US that has one of the lowest (2.2%)
 - In case of agri products, India's tariff of 65.0% is the second highest after South Korea's 94.0%
 - In case of non-agri products, India's tariff of 9.0% is the second highest after Vietnam's 4.5%
- The headline tariff differential between India and US stood at 9.8% in 2023, the highest among top 10 countries with which US had a trade deficit, thereby making India vulnerable to US reciprocal tariffs

India and US: Overview of the MFN tariff structure

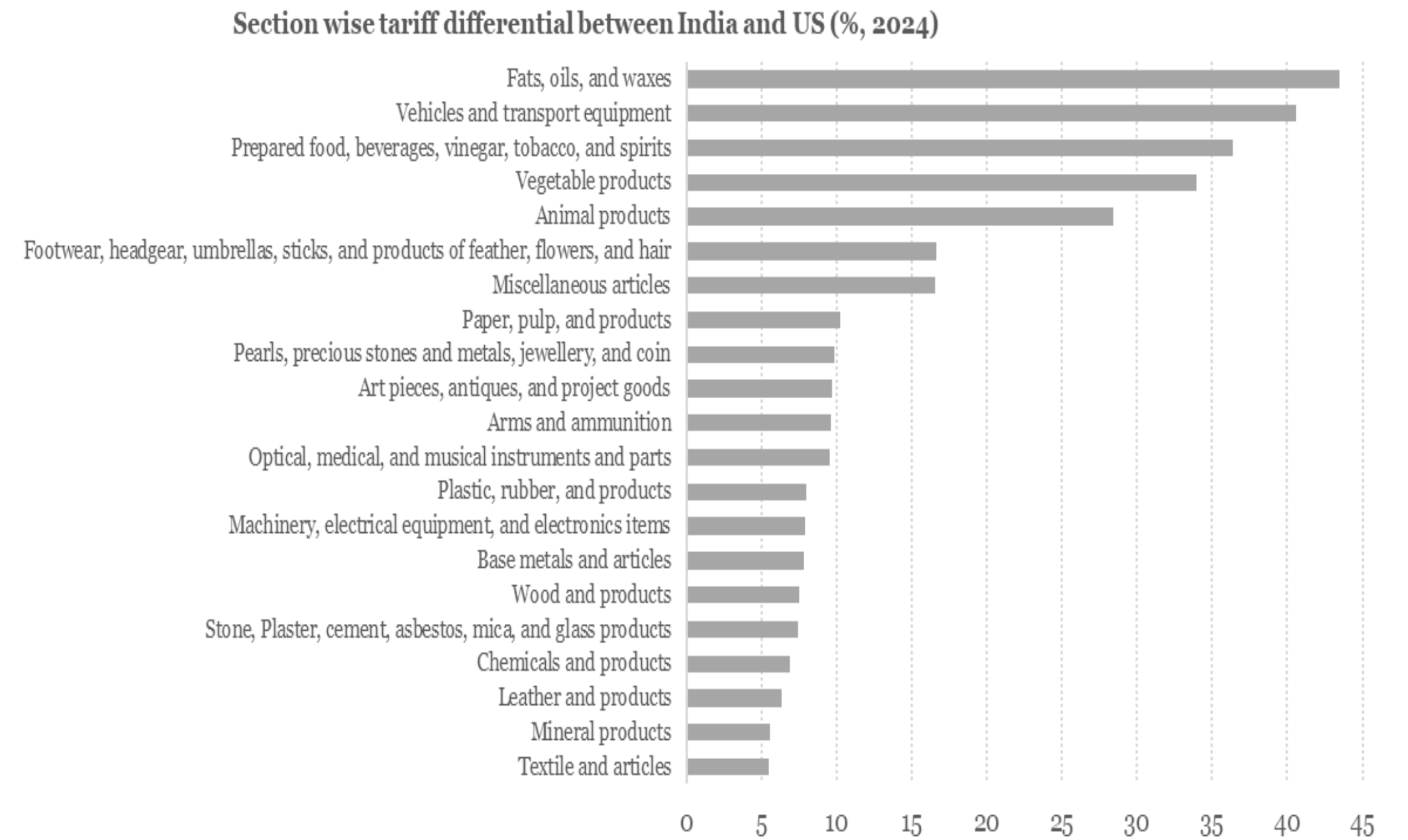
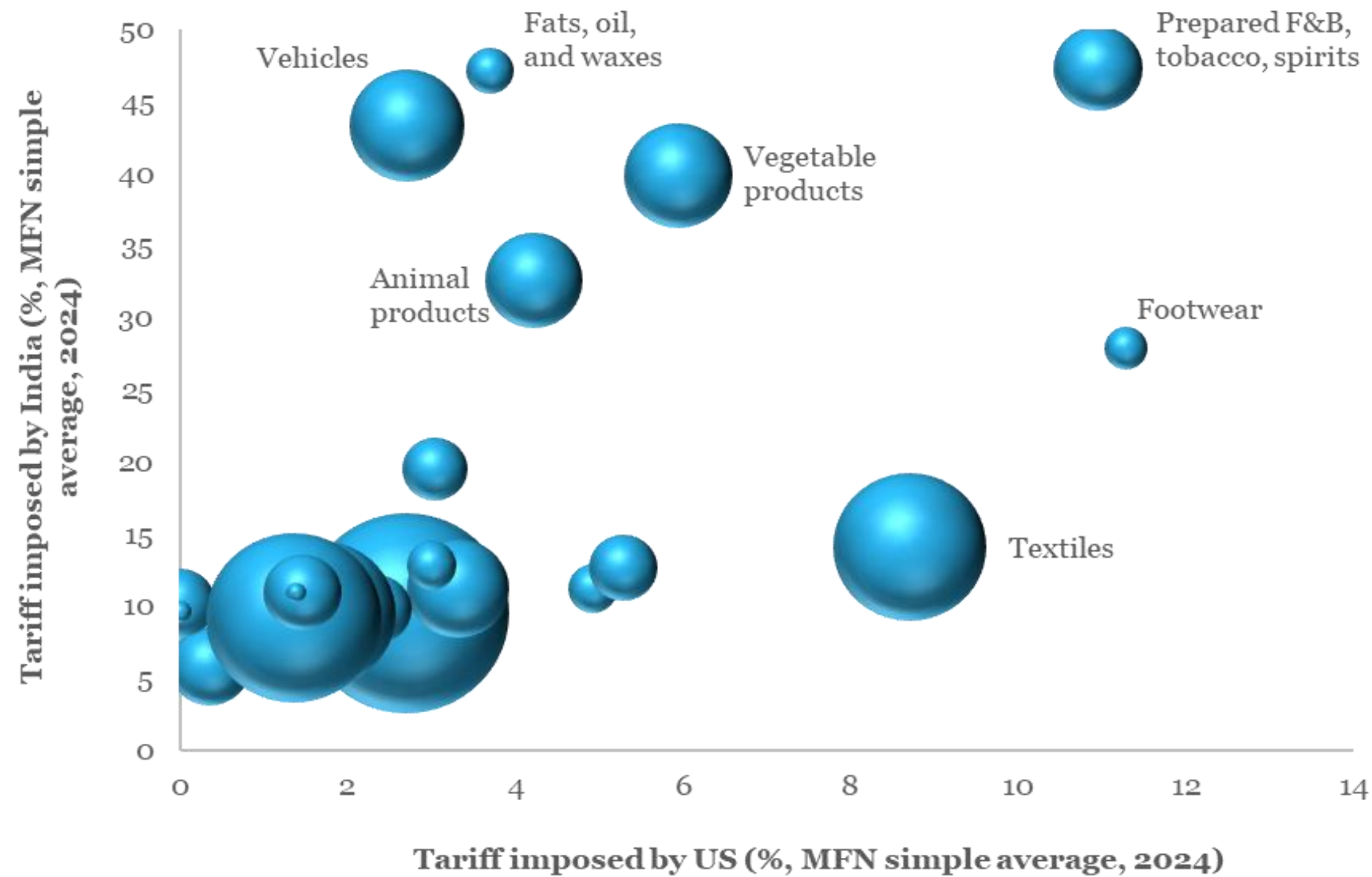
MFN Weighted Average		
Type of Good	Tariff by India (%)	Tariff by US (%)
All products	11.8	2.6
Raw materials	7.4	1.9
Intermediate goods	17.1	1.9
Capital goods	7.0	1.5
Consumer goods	19.3	4.2



- India imposes moderate tariffs on raw materials and capital goods compared to intermediate goods and consumer goods
- Tariff differential is < 10 ppt for 66% of goods and < 30 ppt for 86% of goods
 - Extremely high differential (>100 ppt) exists only in case of 0.5% of the imported goods

Note: Use based tariff classification in the table pertains to WITS data as of 2022. This is somewhat different from the comprehensive HS Code based tariff data provided by the WTO - represented in the chart, with data as of 2023.

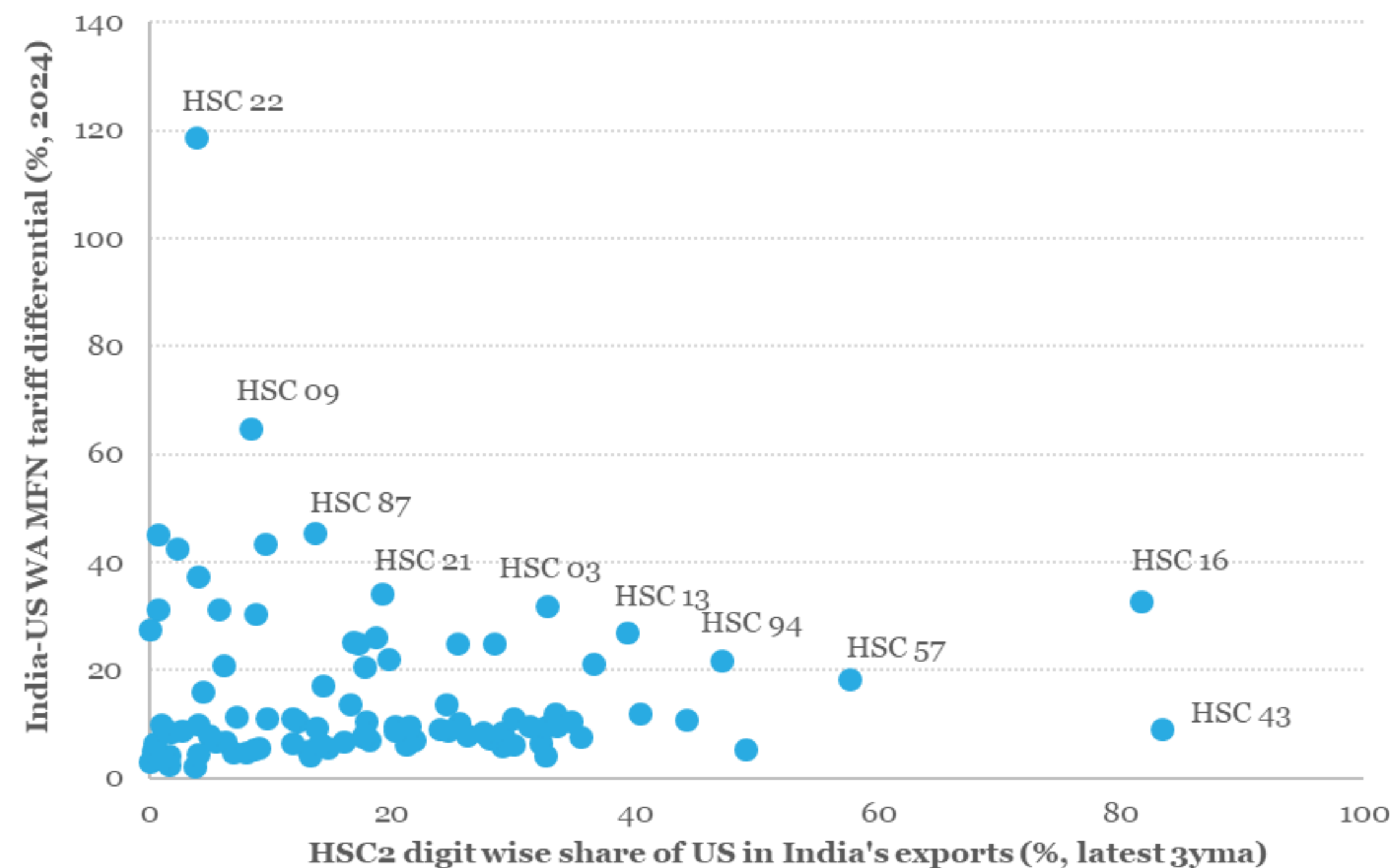
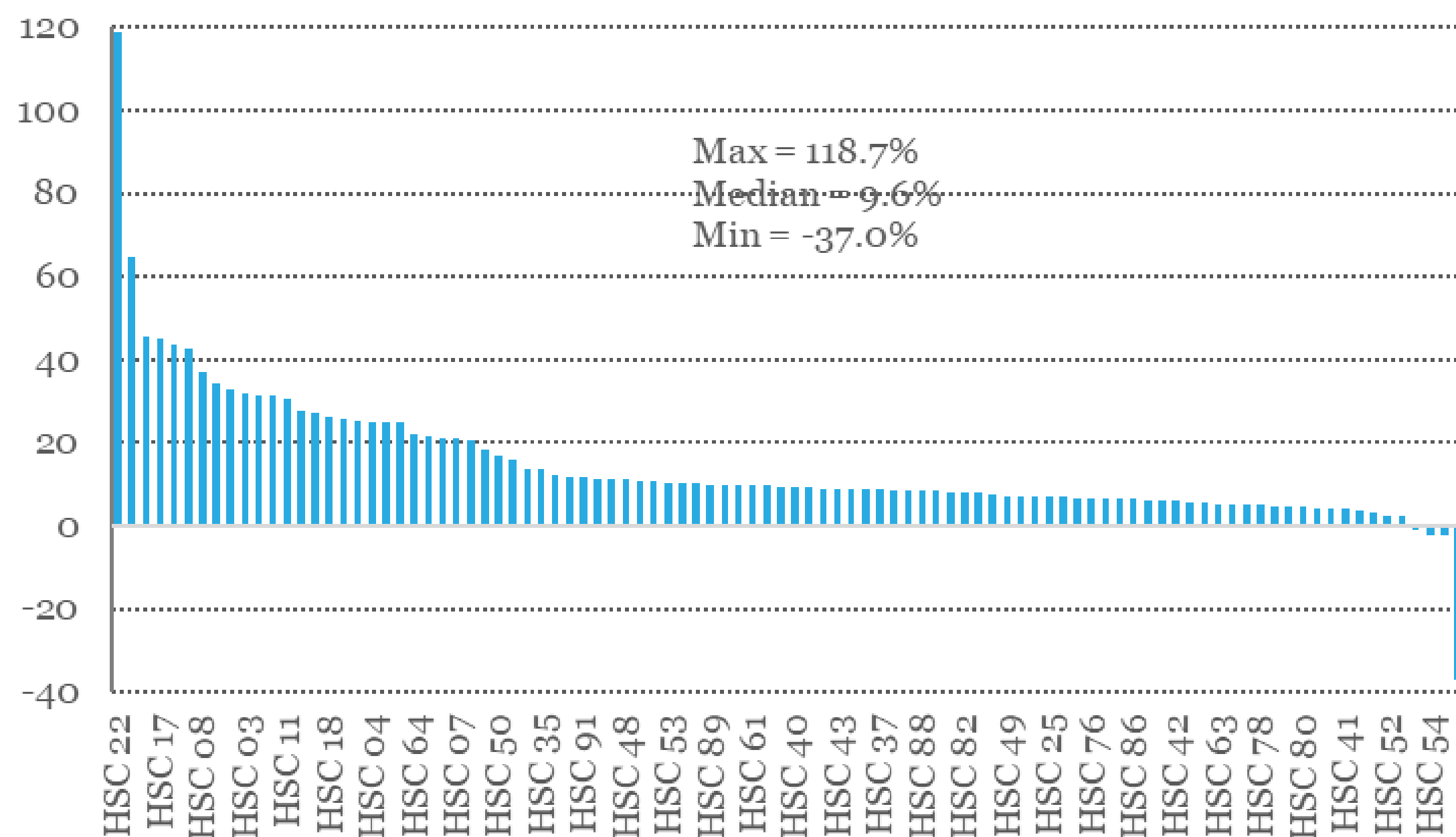
India and US: Overview of the MFN tariff structure (contd')



- At a section-wise level, the tariff differential between India and US is high for most agriculture items along with automobiles and footwear
- Textiles, Mineral products (that includes petroleum items), leather goods, and chemicals (that includes fertilizers and pharmaceuticals) have the lowest level of tariff differential

Reciprocal tariffs: Assessing India's stake

HS Code wise tariff differential between India and US (% , 2024)

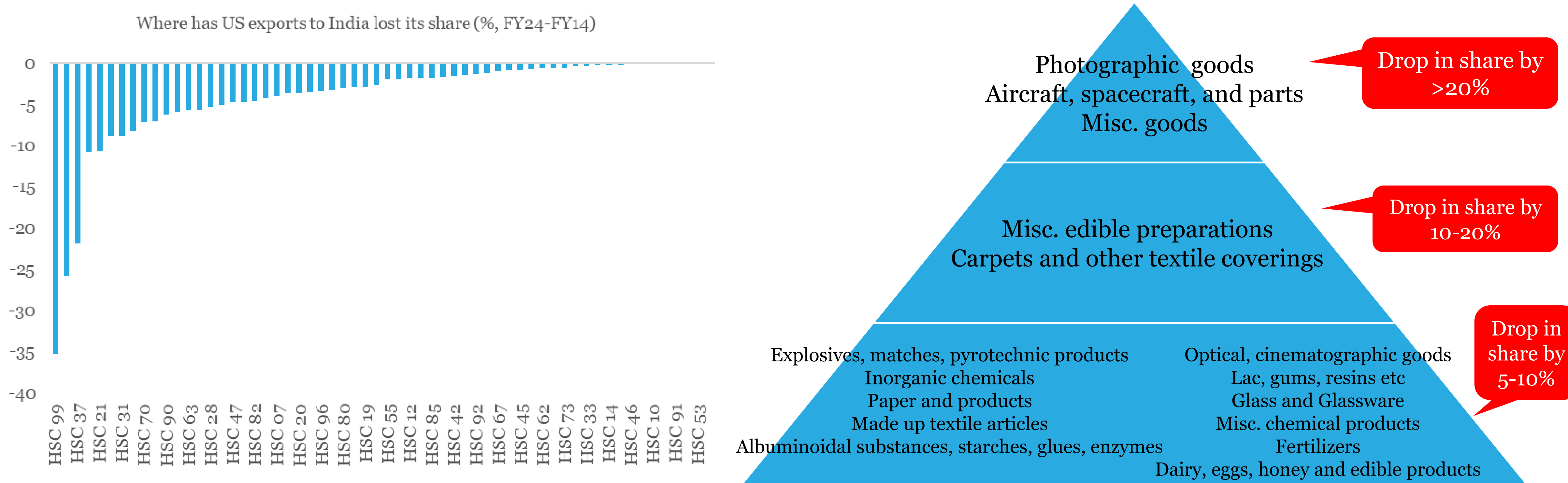


India's Top 20 export items that will be at maximum risk from US reciprocal tariffs

Preparations of meat and fish	Carpets and textile floor coverings	Lac, gums, and resins	Fish and crustaceans*
Furniture, mattress, cushion*	Toys, games & sports equipments	Fur skins and artificial fur	Dairy, eggs, honey, etc.
Misc. edible preparations	Live trees and other plants	Vehicles excl. railway rolling stock*	Coffee, tea, and spices
Cocoa and cocoa preparations	Coated, laminated textile fabrics	Articles of stone, plaster, cement, etc.	Beverages, spirits and vinegar
Footwear*	Preparations of vegetables, fruit, nuts	Preparations of cereals, flour, starch, milk	Animal or vegetable fats, etc.

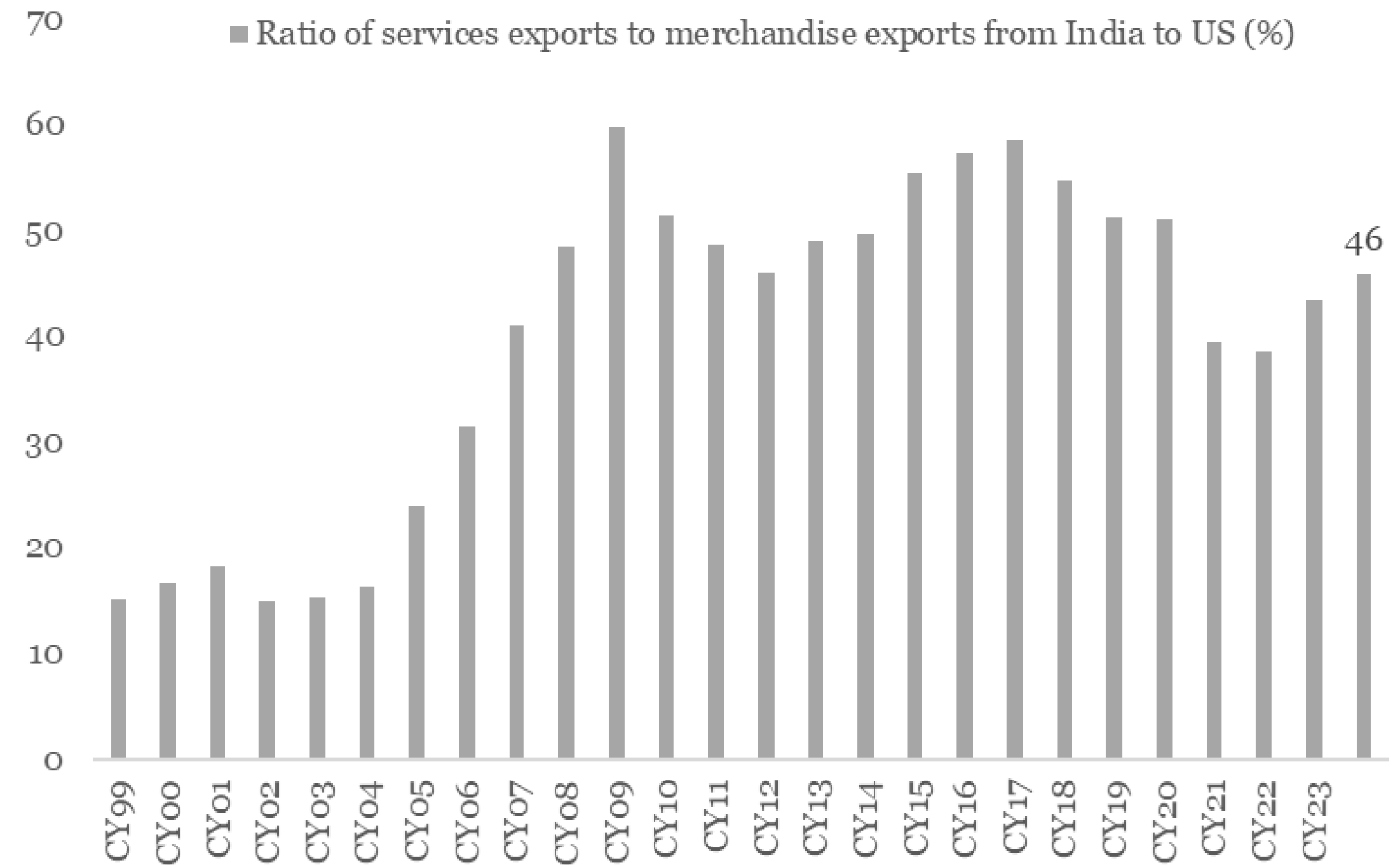
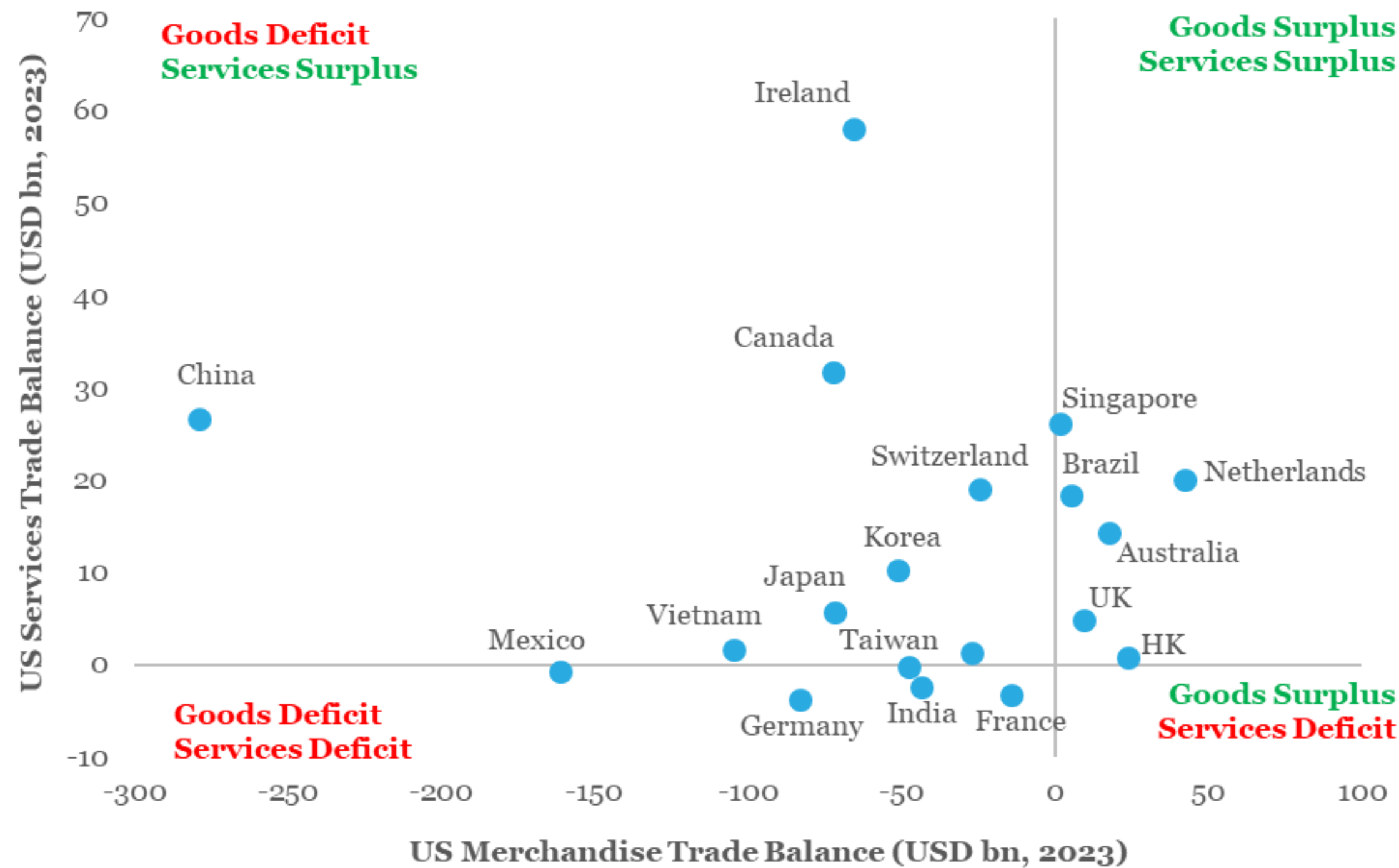
Note: Top 20 vulnerable items in the table above have been identified basis the combined impact of tariff differential and its respective export share. Starred items saw a reduction in duty in FY26 Union Budget.

Where can India deepen its imports from US?



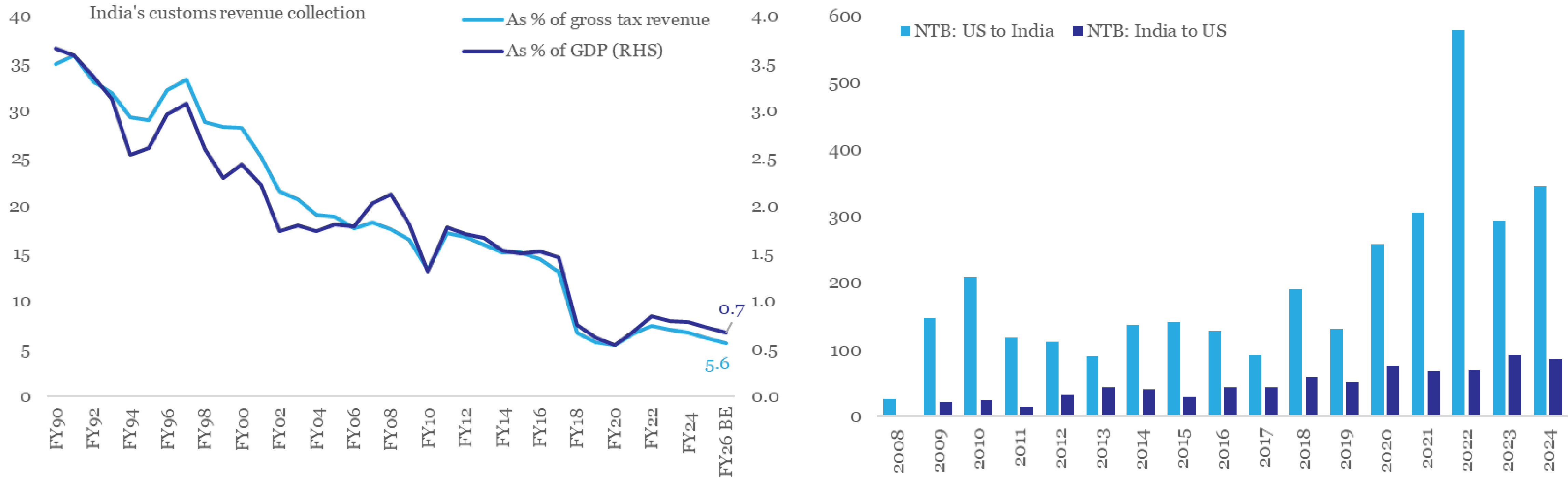
- PM Modi’s visit to the US in Feb-25 has opened the doors for a potential bilateral trade deal in the field of energy, defence, and technology
 - This will play out in the medium term and benefit India in getting access to better technology and hopefully cheaper energy (assuming enhancement of US energy production capacity would boost global supply and lower cost pressure)
 - In the short-term, India could look at reorienting some of the lost market share for imports from China to US (in last 10-years, imports from US have lost their share in 60 out of 97 items as per HS 2-digit code classification)

What about the total trade (goods+services) exposure?



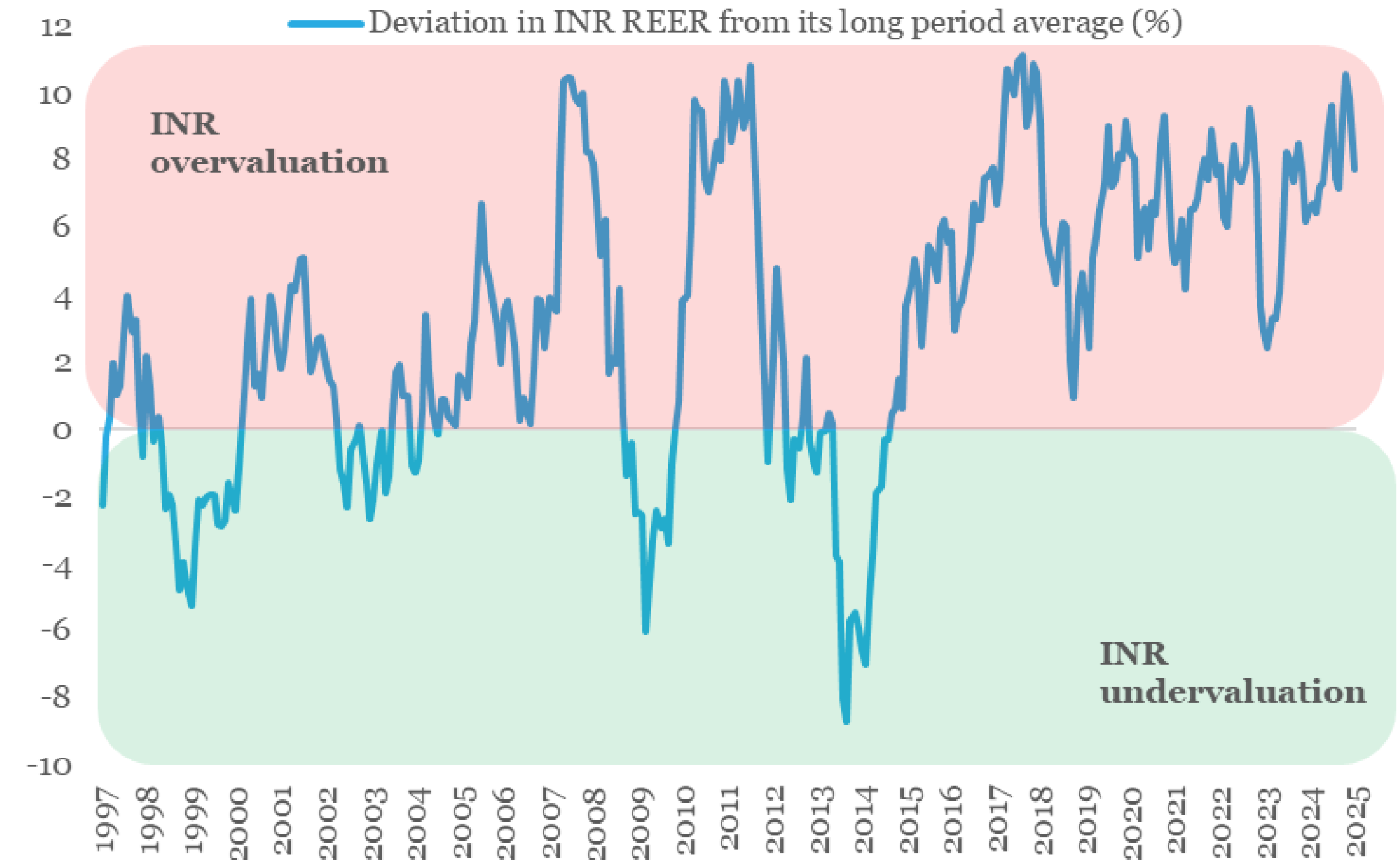
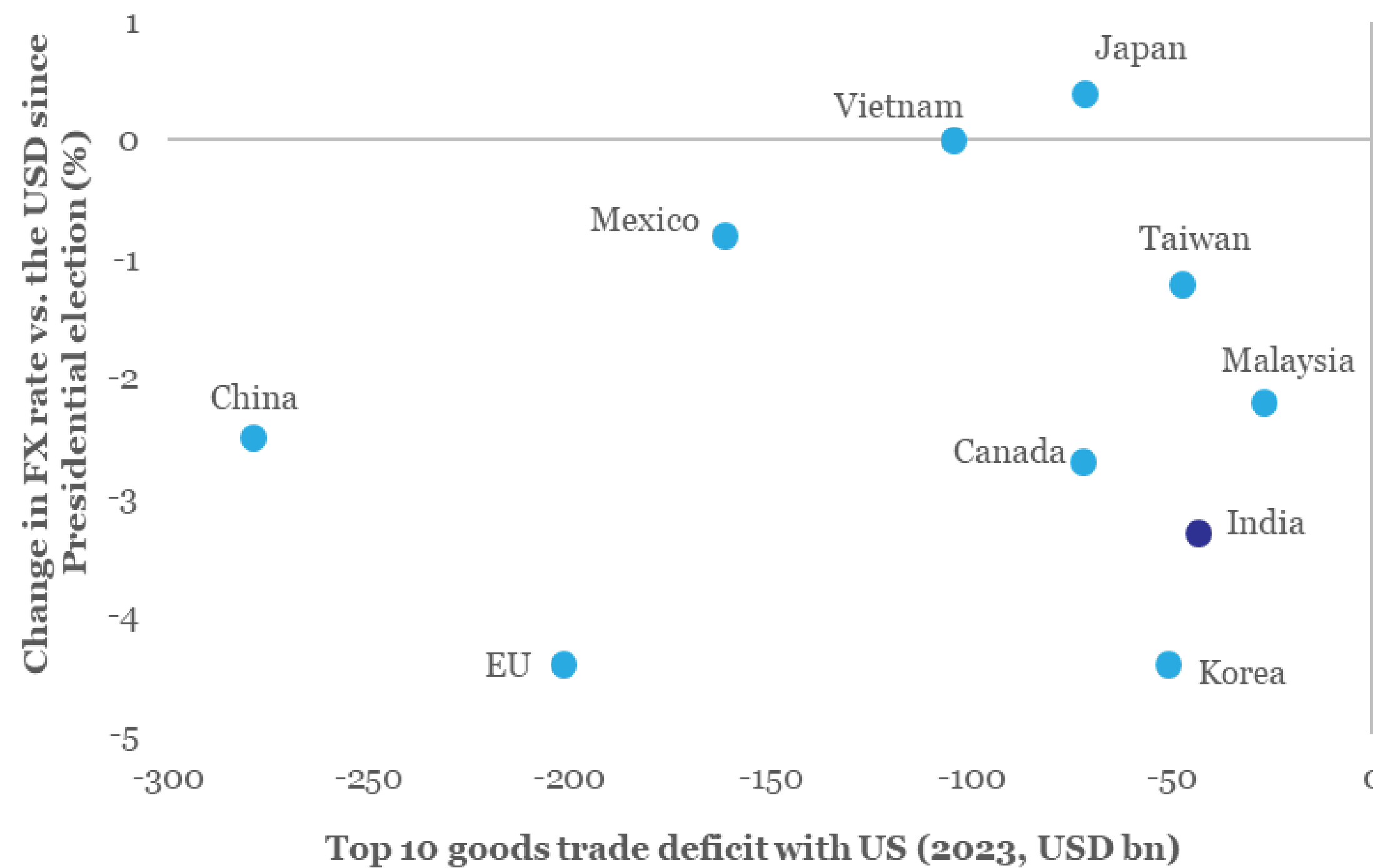
- US runs a trade deficit in both goods and services with India
- From India's perspective, the ratio of its services exports to merchandise exports to US stands at ~46% (Jan-Sep 2024), thereby providing a reasonably strong buffer against any tariff related disruption to merchandise trade

A holistic approach to assess trade interventions



- For India, reliance on customs revenue for government’s tax collection has reduced on trend basis over the years
 - This does not support Trump’s assertion of India being a “tariff king” as high tariffs are not universal and applies only to select products
- Over the last 15-years, US has been 3.9x more discriminatory when it comes to imposition of non-tariff barriers on India
 - In all appropriateness, both tariff and non-tariff measures at an aggregate level should be the criteria for the US to impose reciprocal tariffs on India

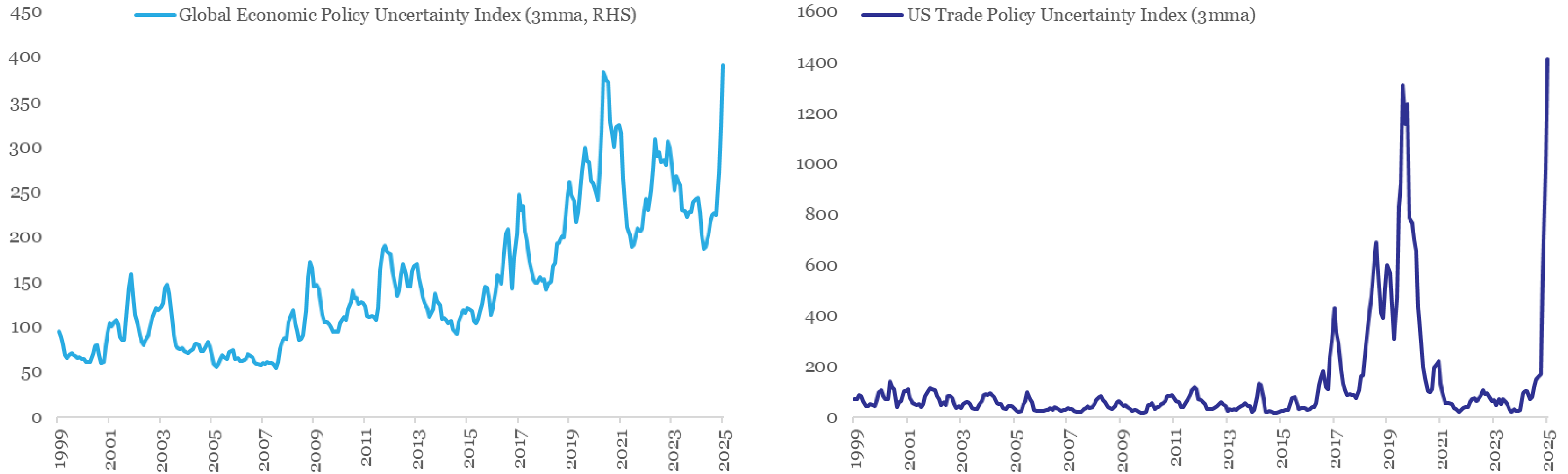
Is India using currency for trade advantage?



- Barring EUR and KRW, the INR has weakened the most (-3.3%) since the US presidential election in Nov-24 despite the size of trade deficit with US being the 9th largest
 - INR weakness is also higher than the dollar strength (+1.2%) seen in the corresponding period
- We believe this does not indicate currency manipulation (to offset US's hard stance on trade), as:
 - INR is currently facing a BoP deficit scenario on account of capital outflow
 - Despite recent depreciation, INR continues to remain overvalued as per the BIS (7.7% vs. the LPA as of Jan-25)

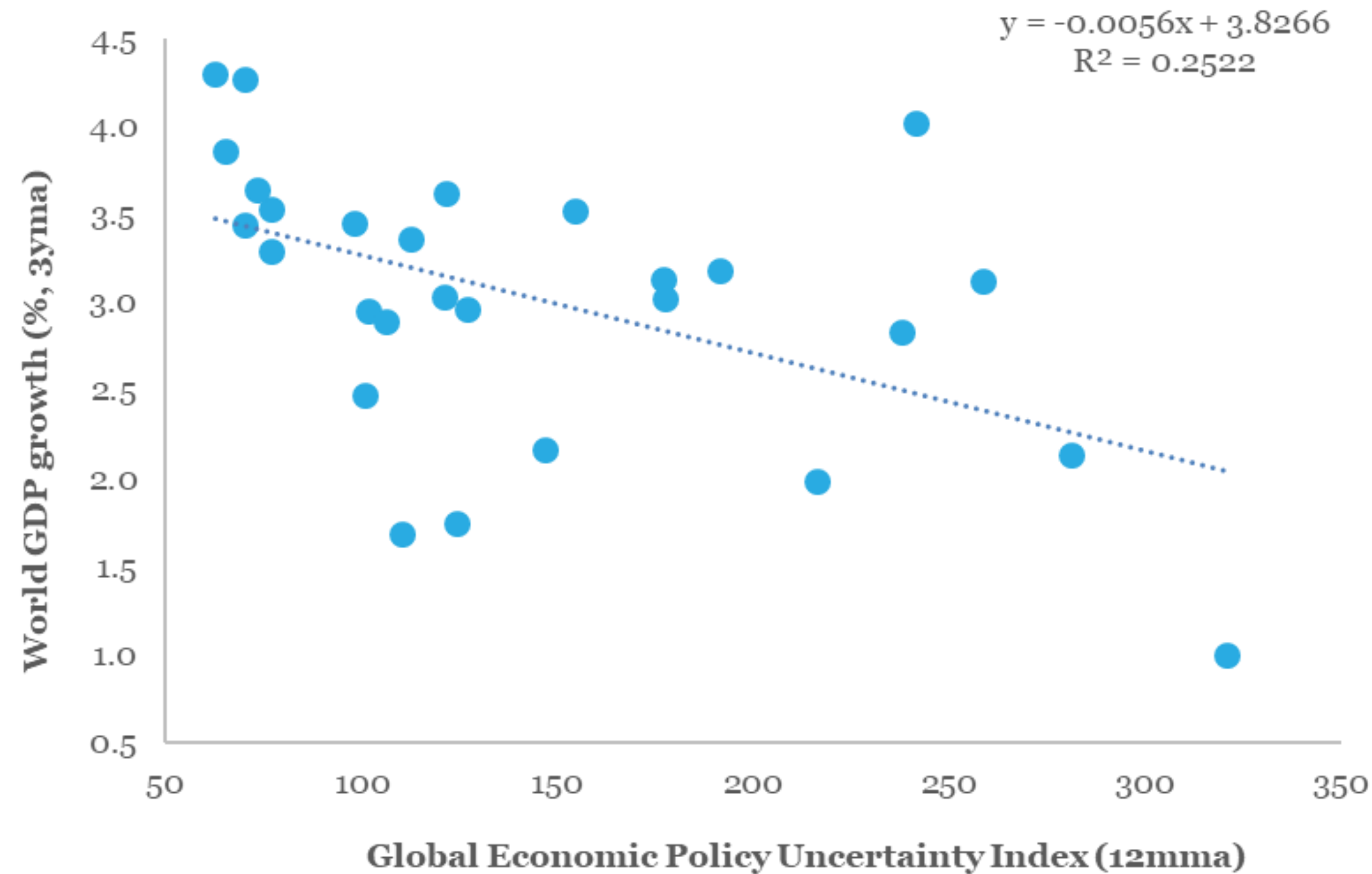
Impact on the Indian economy from disruptions to global trade

Ripple effects of US trade policy on global economic uncertainty



- Since the US presidential election in Nov-24, the perception regarding US trade policy uncertainty has zoomed, and currently appears worse than the previous round of trade war during the Trump 1.0 regime
 - Heightened trade uncertainty along with its spillover impact on overall economic uncertainty could potentially weigh upon economic sentiment, constrain policy space, and weigh upon growth momentum

Assessing the macro impact of US trade uncertainty



Impact of 50 bps decline in World GDP growth on India

- India's GDP growth moderates by 15 bps
- India's CPI inflation moderates by 7 bps

- As per the IMF, trade disruptions caused by the US could potentially result in a 30 bps shock to the World GDP growth in 2025
 - However, if one also includes the spillover impact on labour (via migration) and tightening of global financial conditions (via a stronger USD), then the cumulative shock could be around 80 bps
 - While the US trade shock in isolation could impart a downside of 9 bps and 4 bps to India's GDP growth and CPI inflation in FY26 respectively, a broader impact could be somewhat higher at 24 bps and 11 bps respectively

Assessing the micro impact is challenging

Offsets

Shocks

Pre-emptive tariff reduction in low volume items

Bilateral trade deal with US

Rupee depreciation

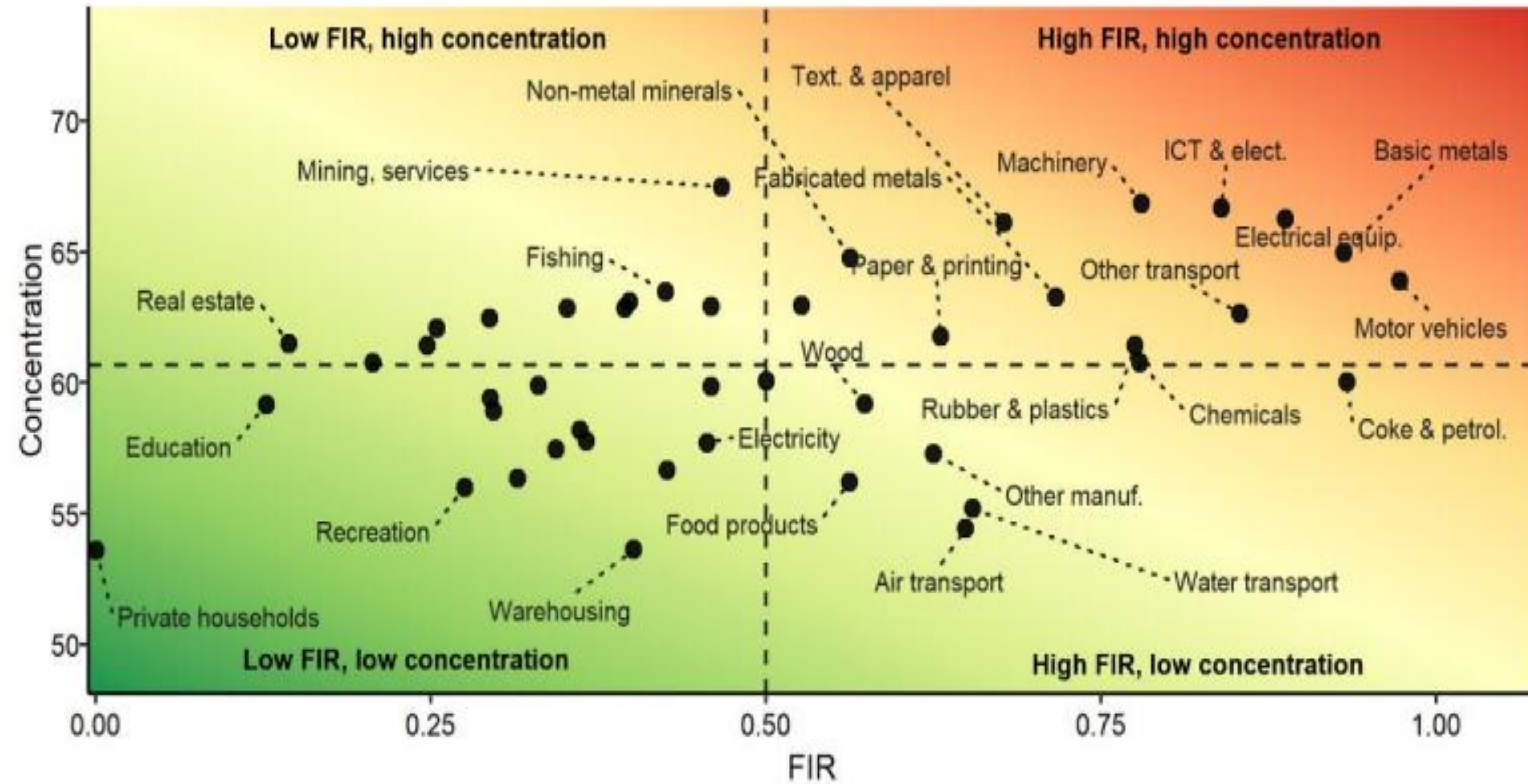
Universal tariffs

Reciprocal tariffs

Work permits

FDI disruption

Foreign Input Reliance vs. Concentration for OECD Exports



- Trump's stance on tariff remains ambiguous. India is expected to offset some of the likely disruption by getting into a bilateral deal, rationalize some of the high tariffs, and INR adjustment.
- The GVCs have become an integral part of global trade with high foreign input reliance and geographical concentration (esp. post COVID).

Appendix

HS Code 2-digit	Product Description
HSC 01	Live animals
HSC 02	Meat and edible meat offal
HSC 03	Fish and crustaceans, molluscs and other aquatic invertebrates
HSC 04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included
HSC 05	Products of animal origin, not elsewhere specified or included
HSC 06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage
HSC 07	Edible vegetables and certain roots and tubers
HSC 08	Edible fruit and nuts; peel of citrus fruit or melons
HSC 09	Coffee, tea, maté and spices
HSC 10	Cereals
HSC 11	Products of the milling industry; malt; starches; inulin; wheat gluten
HSC 12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder
HSC 13	Lac; gums, resins and other vegetable saps and extracts
HSC 14	Vegetable plaiting materials; vegetable products not elsewhere specified or included
HSC 15	Animal, vegetable or microbial fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes.
HSC 16	Preparations of meat, of fish, of crustaceans, molluscs or other aquatic invertebrates, or of insects
HSC 17	Sugars and sugar confectionery
HSC 18	Cocoa and cocoa preparations
HSC 19	Preparations of cereals, flour, starch or milk; pastrycooks' products
HSC 20	Preparations of vegetables, fruit, nuts or other parts of plants
HSC 21	Miscellaneous edible preparations
HSC 22	Beverages, spirits and vinegar
HSC 23	Residues and waste from the food industries; prepared animal fodder
HSC 24	Tobacco and manufactured tobacco substitutes; products, whether or not containing nicotine, intended for inhalation without combustion; other nicotine containing products intended for the intake of nicotine into the human body
HSC 25	Salt; sulphur; earths and stone; plastering materials, lime and cement
HSC 26	Ores, slag and ash
HSC 27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes
HSC 28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes
HSC 29	Organic chemicals
HSC 30	Pharmaceutical products
HSC 31	Fertilisers
HSC 32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks
HSC 33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations
HSC 34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, «dental waxes» and dental preparations with a basis of plaster
HSC 35	Albuminoidal substances; modified starches; glues; enzymes
HSC 36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations
HSC 37	Photographic or cinematographic goods
HSC 38	Miscellaneous chemical products
HSC 39	Plastics and articles thereof
HSC 40	Rubber and articles thereof
HSC 41	Raw hides and skins (other than furskins) and leather
HSC 42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)
HSC 43	Furskins and artificial fur; manufactures thereof
HSC 44	Wood and articles of wood; wood charcoal
HSC 45	Cork and articles of cork
HSC 46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork
HSC 47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard
HSC 48	Paper and paperboard; articles of paper pulp, of paper or of paperboard
HSC 49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans
HSC 50	Silk

Appendix

HS Code 2-digit	Product Description
HSC 51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric
HSC 52	Cotton
HSC 53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn
HSC 54	Man-made filaments; strip and the like of man-made textile materials
HSC 55	Man-made staple fibres
HSC 56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof
HSC 57	Carpets and other textile floor coverings
HSC 58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery
HSC 59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use
HSC 60	Knitted or crocheted fabrics
HSC 61	Articles of apparel and clothing accessories, knitted or crocheted
HSC 62	Articles of apparel and clothing accessories, not knitted or crocheted
HSC 63	Other made up textile articles; sets; worn clothing and worn textile articles; rags
HSC 64	Footwear, gaiters and the like; parts of such articles
HSC 65	Headgear and parts thereof
HSC 66	Umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof
HSC 67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair
HSC 68	Articles of stone, plaster, cement, asbestos, mica or similar materials
HSC 69	Ceramic products
HSC 70	Glass and glassware
HSC 71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin
HSC 72	Iron and steel
HSC 73	Articles of iron or steel
HSC 74	Copper and articles thereof
HSC 75	Nickel and articles thereof
HSC 76	Aluminium and articles thereof
HSC 78	Lead and articles thereof
HSC 79	Zinc and articles thereof
HSC 80	Tin and articles thereof
HSC 81	Other base metals; cermets; articles thereof
HSC 82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal
HSC 83	Miscellaneous articles of base metal
HSC 84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof
HSC 85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles
HSC 86	Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds
HSC 87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof
HSC 88	Aircraft, spacecraft, and parts thereof
HSC 89	Ships, boats and floating structures
HSC 90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof
HSC 91	Clocks and watches and parts thereof
HSC 92	Musical instruments; parts and accessories of such articles
HSC 93	Arms and ammunition; parts and accessories thereof
HSC 94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; luminaires and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated name-plates and the like; prefabricated buildings
HSC 95	Toys, games and sports requisites; parts and accessories thereof
HSC 96	Miscellaneous manufactured articles
HSC 97	Works of art, collectors' pieces and antiques

Thank You!

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