# U.S. tariff shifts

## Tariff revisions and their impact on India

*This update serves as an extension to the report published in April 2025 on 'Liberation day: Its implications on India'. The information and insights provided in this document are as of 26 August 2025 and are subject to change.*

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# U.S. reciprocal tariff update

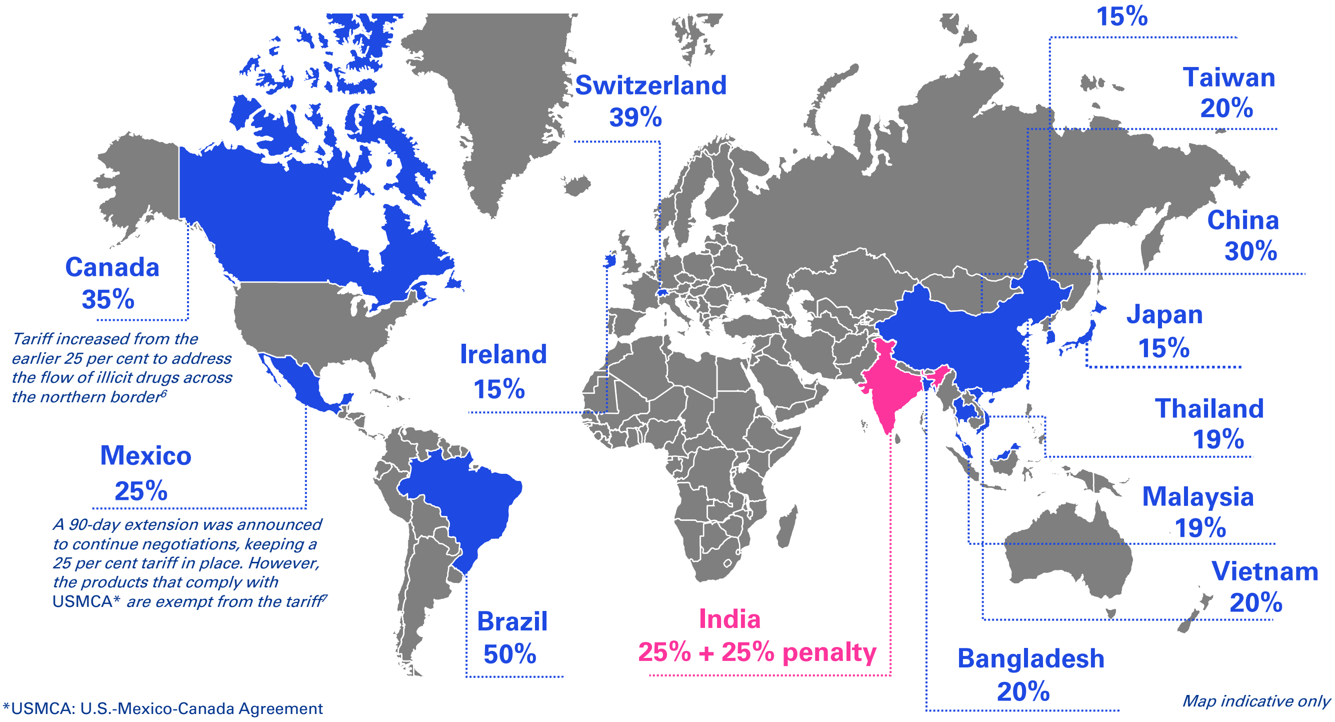
On 2 April 2025, the U.S. announced a set of reciprocal tariffs in response to a national emergency driven by a significant trade deficit[1]. Shortly thereafter, a 90-day pause was introduced on their implementation, set to expire on 9 July 2025, to encourage diplomatic engagement[2].

- On 7 July 2025, the U.S. announced revised tariff rates on certain countries and extended the pause through the end of July, with implementation set for 1 August 2025[3,4]
- During the pause, India and several other countries engaged in negotiations with the U.S. Meanwhile, trade deals were finalised with the European Union (EU), Indonesia, Japan, the Philippines, South Korea, the United Kingdom (U.K.) and Vietnam.

## Key global developments in the U.S. reciprocal tariffs policy

Since 7 July 2025, the U.S. has announced revised tariffs on over 90 countries, set to take effect on 7 August 2025. India was imposed with a 25 per cent tariff, while countries not specifically named in the announcement will face a 10 per cent tariff. Furthermore, the U.S. announced an additional 40 per cent tariff on transshipped goods to deter duty evasion through indirect routing[5].

**U.S. tariff revisions on India and its global counterparts**[5,6,7,8,9,10]




*USMCA: U.S.-Mexico-Canada Agreement

**India's revised tariff standing reflects strategic challenges**

- In comparison, India's exports to the U.S. are currently subject to higher tariffs which may potentially impact their competitiveness.
- On 6 August 2025, the U.S. levied an additional 25 per cent tariff on India, taking the total tariff to 50 per cent, due to continued imports of Russian oil. The additional tariff came into effect from 27 August 2025[9]. Combined with India's assertive engagement in BRICS, this development may heighten trade tensions and increase tariff exposure for Indian exporters
- India's export-heavy MSME clusters, which account for over 45 per cent[11] of total exports, remain vulnerable to tariff pressures due to limited customer diversification, often concentrated in the U.S., resulting in fragile supply chains and elevated trade risk
- Furthermore, India's economic momentum may soften in the near term as elevated tariffs could potentially lead to reduced trade, cautious hiring and subdued investor sentiment.

Along with the blanket reciprocal tariffs imposed on several countries, the U.S. government announced the imposition of Section 232* tariffs on a range of goods, including steel, aluminium, copper, automobiles and auto components, under the provisions of the Trade Expansion Act of 1962. The tariffs are positioned as long-term strategic instruments designed to safeguard critical domestic industries and national interests[12].

## Sector 232 implications

### Copper

- On 30 July, the U.S. imposed a **50 per cent tariff** on copper, in addition to the existing duties on semi-finished and high-value copper derivatives[13]
- The expected **pressure on global copper prices** has prompted major producers to revise their 2025 output plans for streamlining costs and preserving long-term reserves.

### Steel and aluminium

- The U.S. raised tariffs to **50 per cent** from 25 per cent, following an announcement on 3 June 2025, with the new rates taking effect from 4 June 2025[14]
- In addition to the 100 per cent tariff hike, the U.S. expanded its sectoral tariff coverage by including over **400 derivative steel and aluminium products** to curb circumvention and support domestic manufacturing revival[15].

### Automobile and auto components

- Automakers are experiencing cost challenges due to tariff impacts and have **actively urged the U.S. government to reconsider and reduce the 25 per cent**[16] tariffs imposed on automobiles and auto components
- In line with this, on 29 April 2025, the U.S. introduced an **import adjustment offset** for select auto components. This allows manufacturers assembling vehicles in the U.S. to claim 3.75 per cent of the aggregate manufacturer's suggested retail price (MSRP) value from April 2025 to April 2026 and 2.5 per cent of the MSRP value from May 2026 to April 2027[17].
  - These policy changes aim to strengthen U.S. auto assembly and end-to-end vehicle manufacturing, reducing reliance on foreign automotive imports.

While certain sectors are experiencing significant impacts due to tariffs imposed under Section 232, select sectors currently remain exempt from the tariffs. However, these exempt sectors are increasingly vulnerable to potential tariff imposition in the near future, as geopolitical dynamics and trade negotiations evolve.

## Tariffs on exempted sectors

- Semiconductors, pharmaceuticals, energy, certain minerals and lumber articles were initially exempted, with an indication that they could face tariffs at a later stage[1]
- The U.S. government launched Section 232 investigations into the imports of **pharmaceuticals** and **semiconductors** in April 2025 to assess implications on national security[18,19]
- Based on these findings, the U.S. could impose tariffs on pharmaceuticals to encourage drugmakers to invest in domestic manufacturing. Similarly, tariffs on semiconductors and computer chips may be introduced as part of the efforts to expand domestic chip manufacturing in the U.S.

*Section 232 of the Trade Expansion Act of 1962 authorises the U.S. president to impose tariffs on certain imports that could compromise U.S. national security

# Developments in the India-U.S. tariff negotiations

India and the U.S. have been actively engaged in trade negotiations aimed at advancing a bilateral trade agreement (BTA), with the first tranche initially expected to be finalised by September–October this year[20]. However, despite several rounds of discussions, the negotiations remain ongoing, with key issues still being deliberated, which may impact the timeline for formalising the agreement.

### Key trade frictions and negotiation challenges

- India continues to maintain restrictions on agricultural and dairy imports from the U.S., citing sensitivities around domestic sectors. These measures also extend to genetically modified (GM) crops from the U.S., which remain excluded from current trade considerations.
- The country is also pursuing lower tariffs on labour-intensive goods such as textiles and footwear, while the U.S. seeks concessions on industrial and high-value products, underscoring divergent trade priorities.
- India sources ~35 per cent of its crude oil from Russia, followed by Iraq (19 per cent) and Saudi Arabia (14 per cent)[21]. Diversion from Russian oil imports could drive demand towards alternative suppliers such as the U.S. and UAE, potentially inflating market premiums for Indian buyers above current differentials.

**Retaliatory measures and World Trade Organisation (WTO) engagement**

India formally notified retaliatory duties under WTO provisions in response to U.S. safeguard tariffs on import of auto components. This move is similar to the steps India previously took in the steel and aluminium sectors[22].

## Revised U.S. tariff policies: Implications for India

Over 30 per cent of India's export in textiles and apparel, pharmaceuticals, smartphones, gems and jewellery and marine products are directed to the U.S., amplifying the potential impact of tariffs[21]. The following table highlights the relative exposure of Indian sectors to the U.S. market, offering a snapshot of potential trade vulnerabilities.

| | Exports to the U.S. (FY25, USD billion)[21] | Share of the U.S. in India's exports (in per cent)[21] | Share of India in total U.S. imports (in per cent)[23] |
|---|---|---|---|
| Gems and jewellery | 10 | 33 | 13.3 |
| Marine products | 2 | 32 | 9.5 |
| Textile and apparel | 10.7 | 29 | 9.1 |
| Smartphones | 10.9 | 42 | 7.8 |
| Pharmaceuticals | 9.8 | 40 | 6 |
| Steel | 3.7 | 19 | 3.9 |
| Aluminium | 0.9 | 13 | 2.9 |
| Copper | 0.4 | 17 | 1.6 |
| Automobile and auto components | 2.6 | 11 | 0.7 |

Note: Sectors are ranked by India's descending share in total U.S. imports

Minimally affected → Highly affected

## Automobile and auto components

| Countries and jurisdictions (Tariffs in %) | Mexico (25) | Japan (15) | Canada (25) | EU (15) |
|---|---|---|---|---|

- With the U.S. accounting for ~29 per cent of India's auto component exports in FY25, the tariffs could have potential implications on the sector's performance, particularly in replacement markets[21]
- Lower tariffs on other peer countries may lead to Indian exports being less price-competitive in the U.S. market
- Diversifying exports to African and Latin American countries, where demand for affordable vehicles is rising, can unlock new growth avenues.

## Electronics and semiconductors

| Countries and jurisdictions (Tariffs in %) | Vietnam (20) | Thailand (19) | Taiwan (20) |
|---|---|---|---|

- Smartphones comprise 68 per cent of India's electronics exports to the U.S. While currently exempted, any potential imposition of tariff may be cushioned by India's robust domestic consumption, with 97 per cent of the mobile phone demand met locally in FY24[21,24]
- Tariffs on semiconductors may hinder investment and readiness of India's chip facilities, while copper tariffs could disrupt electronics and chip production due to price volatility in imported copper
- Exploring export opportunities in countries ramping up EV manufacturing, such as Indonesia, Thailand and Brazil, can open doors to rising semiconductor demand.

## Gems and jewellery

| Countries and jurisdictions (Tariffs in %) | Switzerland (39) | Canada (35) | South Africa (30) |
|---|---|---|---|

- India is one of the largest suppliers of diamonds to the U.S., fulfilling 45 per cent of its import demand. Tariffs could pose challenges for India's diamond cutting and polishing industry, already impacted by falling prices, low-cost alternatives and sanctions on Russian rough diamonds[23]
- With over 85 per cent of the industry comprising MSMEs, increased tariffs could bear an impact on labour and cause increased pressure on small exporters[25]
- Strategic tie-ups to move certain parts of their operations to Gulf countries such as the UAE, with lower U.S. tariffs, attractive tax incentives and advanced infrastructure, are likely to offer a competitive edge.

## Marine products

| Countries and jurisdictions (Tariffs in %) | Ecuador (15) | Vietnam (20) | Indonesia (19) |
|---|---|---|---|

- India ranks third among the top suppliers of marine products to the U.S., with frozen shrimp accounting for over 90 per cent of its export value in this category[21,23]
- Tariffs could affect India's price competitiveness compared to Latin American exporters, risking job losses and economic strain in farming communities
- Tapping into rising shrimp demand in Russia, leveraging tariff-free access to the U.K., which imports 90 per cent of its seafood and targeting growing hospitality-driven seafood demand in the UAE and Saudi Arabia could offer strategic export opportunities[26].

## Pharmaceuticals

| Countries and jurisdictions (Tariffs in %) | Ireland (15) | Switzerland (39) | Germany (15) |
|---|---|---|---|

- India ranks fifth in the U.S. pharma imports, with a value of around USD12.7 billion in CY24[23]
- India supplies 40 per cent of U.S. generics, produced at scale with thin margins. Any potential tariff hikes would bear a significant impact due to pricing regulations and are likely to be passed to U.S. stakeholders[27]
- Indian firms are also expanding into Europe, the U.K., Australia and other regulated markets, leveraging stable demand due to their ageing populations, thereby reducing reliance on a single geography.

## Solar equipment

| Countries and jurisdictions (Tariffs in %) | Vietnam (20) | Thailand (19) | Malaysia (19) |
|---|---|---|---|

- The anti-dumping probe by the U.S. Commerce Department into solar cells leads to uncertainty for Indian exporters, with USD793 million in module exports to the U.S. in 2024[28]
- India is targeting growth in solar exports across Europe, with Germany and Spain emerging as key demand centres amid rising installations and the Netherlands positioned as a strategic gateway into the EU market
- India currently relies on imports for key solar inputs such as polysilicon and solar-grade wafers. However, it is investing in R&D and developing an integrated manufacturing ecosystem to reduce dependence and emerge as a global solar hub.

## Textiles

| Countries and jurisdictions (Tariffs in %) | Vietnam (20) | Cambodia (19) | Bangladesh (20) |
|---|---|---|---|

- In FY25, the U.S. accounted for 29 per cent of India's textile and apparel exports[29]
- With lower tariffs and cost advantages, Bangladesh and Vietnam are gaining ground as preferred sourcing hubs, narrowing India's price competitiveness in the U.S. market
- India's emphasis on zero-defect, sustainable premium cotton, backed by strong trade relations, strengthens its access into the EU's USD268.8 billion textile import market, which is over twice the size of the U.S. market[29].

## Steel, aluminium and copper

| Countries and jurisdictions (Tariffs in %) | Canada (50) | Mexico (50) | South Korea (50) |
|---|---|---|---|

- With U.S. demand subdued, China may divert excess steel to markets such as India, pressuring the latter's local margins. In response, India has announced a 12 per cent safeguard duty in April 2025 to protect domestic producers from redirected shipments[30]
- Indian steel exports are gaining momentum in the Gulf, Africa, and Southeast Asia, particularly in hot rolled bars, bright bars and steel wires
- Shipments to the UAE and Europe are also rising, driven by India's strength in quality and delivery reliability.

# U.S. bilateral trade landscape post-tariff announcements

During the 90-day pause and its subsequent extension, several countries entered into negotiations with the U.S., while the U.S. finalised trade deals with a few of them.

| Country | Bilateral deal |
|---|---|
| **South Korea** | • The U.S. imposed a **15 per cent tariff** on imports from South Korea under a trade agreement finalised on 30 July 2025<br>• In exchange, South Korea has agreed not to impose any tariffs on American goods and has also committed to invest **USD350 billion** in select U.S. projects and purchase **USD100 billion** worth of liquefied natural gas and other energy products[31]. |
| **European Union** | • The U.S. has reduced tariffs on most EU goods to **15 per cent**, down from the previous **30 per cent**, covering sectors such as auto, pharmaceuticals and semiconductors. The industry-specific duties on steel, aluminium and copper are expected to remain at their existing levels<br>• The EU has announced plans to purchase **USD750 billion** in energy products from the U.S. and invest an additional **USD600 billion** in the U.S. economy by 2028[32]. |
| **Japan** | • Imports from Japan are expected to be subject to a baseline **15 per cent tariff rate**. The U.S. also announced a reduction in import tariffs on Japanese cars from 25 to 15 per cent, including existing duties, as part of the economic agreement announced on 22 July 2025[33,34]<br>• Japan has committed to invest **USD550 billion** as part of a broader strategic initiative in collaboration with the U.S.[34]. |
| **Vietnam** | • Imports from Vietnam are slated to face a **20 per cent tariff**, reduced from the initial 46 per cent, under a deal announced on 2 July 2025. In return, Vietnam is expected to impose zero tariffs on U.S. exports and grant preferential access to select American goods, such as large-engine vehicles<br>• Goods transshipped from Vietnam are likely to be subject to a separate **40 per cent tariff**[35]. |
| **United Kingdom** | • A **10 per cent tariff** has been imposed on U.K. goods under the U.S.–U.K. Economic Prosperity Deal, signed on 16 June 2025. The agreement aims to boost U.S. exports to the U.K., especially beef, ethanol and other agricultural products<br>• The first 100,000 vehicles exported to the U.S. annually are projected to incur a 10 per cent tariff, with excess units taxed at **25 per cent under Section 232**<br>• Tariff details on U.K. steel and aluminium imports are yet to be finalised, with exemptions granted for select aerospace products[36]. |

### Recent tariff updates on China

- On 12 May 2025, the U.S. and China agreed to a 90-day tariff pause, maintaining a **10 per cent baseline** and a **20 per cent** tariff on fentanyl-related imports. The suspension, initially set to expire on 11 August, has been extended by another **90 days until 10 November 2025**.[10,37]
- The U.S. also set a preliminary **93.5 per cent** anti-dumping tariff on Chinese graphite imports in mid-July[38].

# Way forward

India's economy remains relatively insulated due to its low export dependency. While the U.S. is one of India's largest export destinations, its share in India's GDP is a modest 2 per cent[39], limiting the broader economic impact of the reciprocal tariffs. However, India, in response, is proactively implementing targeted reforms and policies to mitigate long-term risks arising from export concentration.

## Near-term actions

| | | |
|---|---|---|
| Accelerate trade talks with the U.S. to secure product-level exemptions for critical sectors such as textiles, gems, marine products, pharmaceuticals, among others. | Provide targeted subsidies, working capital support, export insurance for high-exposure MSMEs and employment-intensive clusters to mitigate immediate disruptions or failures. | Encourage exporters to offer temporary discounts, absorb part of the tariff hit for strategic buyers or shift to consignment models to avoid permanent market loss. |

## Long term strategic priorities

### Diversify demand, deepen markets

- Fast-track trade talks with the EU, Peru, Chile and New Zealand to broaden export opportunities in goods such as digital services, critical minerals, machinery and appliances, among others
- Drive systematic export intensification across strategic geographies including ASEAN*, Latin America, GCC* and African nations to strengthen a resilient export ecosystem
- Proactively pursue bilateral trade facilitation pacts, not necessarily full FTAs, with priority partners to secure preferential access in high-growth sectors and targeted segments.

### Move up the value chain

- Strategic partnership with China, the EU and Japan can be pivotal for India to enhance its industrial capabilities by securing technology access and know-how transfers to fortify its manufacturing and innovation ecosystem
- A strategic shift towards niche, high-value products can offer greater pricing power and margin protection. By targeting premium segments in the U.S. market, Indian exporters can mitigate cost pressures
- Adopting global standards and incentivising value-added functions such as design, branding and services adjacent to goods can enable India to shift from low-margin commodities to high-quality, value-driven products.

### Bolstering high-value service exports

- With 54 per cent of India's software service exports directed to the U.S.[40], the sector offers strong growth potential, remaining unaffected by the tariff regime
- Leveraging this resilience, investing in services such as IT/BPM* and specialised deep-tech centres in AI, fintech and healthtech can boost foreign exchange and increase domestic corporate profits
- Shifting focus to high-value services such as design, consulting, healthcare and education can drive sustained growth, attract investments, expand India's global talent footprint and strengthen its position in knowledge-driven industries.

### Enhance ease of doing business

- Implementing a centralised clearance system alongside stronger dispute resolution and digitised trade processes can enhance compliance, reduce transaction risks and attract greater foreign and domestic investment
- Aligning product standards with global benchmarks can ease market entry in key export geographies and further strengthen trust with international stakeholders.

*ASEAN: Association of Southeast Asian Nations: GCC: Gulf Cooperation Council; IT/BPM: Information technology, business process management

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