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## INDIA-US TARIFF DEAL: WILL IT BE 'MEGA'(MAGA+MIGA)?\*

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### I. Introduction:

The return of the Trump-era after the US election has unnerved global market in as much as market is continuously trying to assess the future course of actions. Experts argue that behind such 'tariff terrorism' the fundamental objectives of Trump are- asset monetisation, lower crude prices, lower rates, weaker dollar, return of manufacturing to US are his core interests.



Mexican President Claudia Sheinbaum managed an extension of one-month on tariffs after agreeing to send 10,000 troops to the US–Mexico border to prevent the trafficking of fentanyl and other drugs. On the other hand, Canada's oil exports to the US make it a key partner, that ships about 3.9 million barrels per day across the border, outpacing Mexico's second-place 397,000 barrels. Canadian and Mexican imports account for roughly 25% of the crude oil processed in US refineries. Trump does not alter the 4<sup>th</sup> March'25 deadline yet for imposing the 25% tariff on both the countries.

\* MAGA=Make America Great Again, MIGA=Make India Great Again. Recently, Indian Prime Minister (PM) Narendra Modi has highlighted that when India and US would work together, it will be rather a 'MEGA' deal indeed. See, <https://www.foxnews.com/politics/indian-pm-modi-takes-page-trump-says-make-india-great-again-miga>

### **The “Trump Tariff” Chaos: Will the intended Objectives has underlying Economic Costs?**

During Trump’s first term, his protectionist policies, including tariffs and tax cuts, did not achieve their intended goals of reducing the trade deficit, boosting domestic manufacturing, or creating sustainable jobs. Despite imposing multiple tariffs, the U.S. trade deficit increased from \$479 billion in 2017 to \$643 billion in 2021 (Trump’s first term)<sup>1</sup>. Manufacturing companies did not relocate back to the U.S.; instead, many shifted productions to other Asian countries like Vietnam, avoiding the tariffs altogether. While initial steel tariffs led to 6,000 new jobs in the industry, overall manufacturing jobs declined, with a U.S. Federal Reserve study estimating a net loss of 75,000 jobs due to higher input costs. Also, Trump's trade war with China resulted in retaliatory tariffs, hurting U.S. exports and leaving long-term damage to trade relations. The 2020 trade deal between the U.S. and China failed to meet its commitments, with China not fulfilling its pledge to buy \$200 billion worth of U.S. goods. The potential challenge is that implementing similar strategies may lead to economic setbacks instead of the intended objectives.

Trump is insisting Saudi Arabia and OPEC to increase oil production and lower prices, aiming to undermine Russia, which relies on oil exports for over 30% of its federal budget revenue. A drop in oil prices or exports would further strain Russia’s economy and the US has an argument that this will lead to ceasefire with Ukraine. However, Trump's underlying objective is to replenish the U.S. Strategic Petroleum Reserve (SPR) to stabilize domestic oil prices and curb inflation. Achieving this, however, is highly challenging. OPEC, including Russia as part of the OPEC+ alliance, is unlikely to cooperate, as lower prices would hurt the export revenues of all member nations. Even with Trump's close ties to Saudi Crown Prince Mohammed bin Salman, convincing OPEC to act against its own economic interests remains a formidable task.

The rest of the paper focuses on the analytics of the impact/implications of Trump tariff especially in the context of the trade with India. The detailed are outlined as follows.

## **II. India’s Trade with US: What lies Ahead?**

India enjoys a trade surplus with the USA, with exports reaching \$77.5 billion in FY24, accounting for 18% of India’s total exports. The total bilateral trade between India and the USA has grown significantly, from \$64.52 billion in 2016-17 to \$129.41 billion in 2022-23, highlighting the strong economic ties between the two nations (see Table 1).

<sup>1</sup> <https://www.politico.com/news/2021/02/05/2020-trade-figures-trump-failure-deficit-466116>

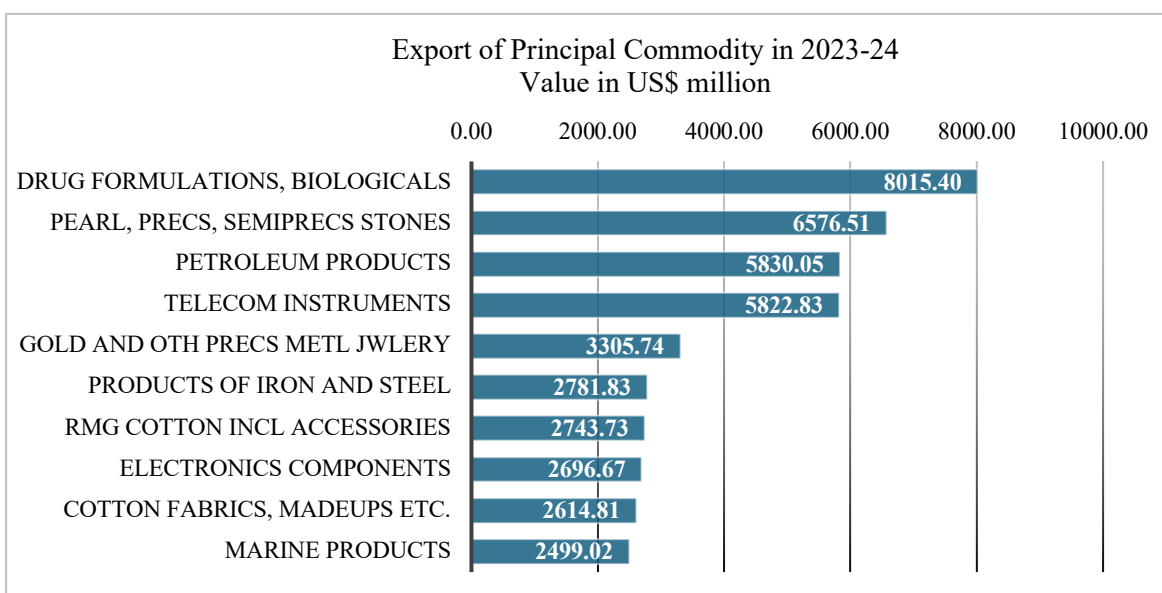
**Table 1: India's Trade Statistics with U.S. (USD Billion)**

Fiscal Year	Export	Import	Total Bilateral Trade	Trade Balance
2016-17	42.22	22.31	64.52	19.91
2017-18	47.88	26.61	74.49	21.27
2018-19	52.43	35.55	87.98	16.88
2019-20	53.11	35.82	88.93	17.29
2020-21	51.63	28.89	80.52	22.74
2021-22	76.18	43.31	119.49	32.86
2022-23	78.55	50.86	129.41	27.68
2023-24	77.52	42.20	119.72	35.33
2024-25*	52.91	29.63	82.54	23.28

\*Figures from April to Nov'24. Source: Monitoring Dashboard, Ministry of Commerce and Industry, GoI.

On the export front, India's principal commodity exports to the U.S. are dominated by high-value sectors such as pharmaceuticals and gemstones. Drug formulations and biologicals lead the list with exports worth \$8,015.40 million, underscoring India's role as a global hub for generic medicines. This is followed by pearls, precious, and semi-precious stones (\$6,576.51 million), highlighting India's strength in gemstone processing and jewellery manufacturing. Other significant exports include petroleum products (\$5,830.05 million), telecom instruments (\$5,822.83 million), and gold and precious metal jewellery (\$3,305.74 million), alongside textiles like RMG cotton (\$2,743.73 million) and cotton fabrics (\$2,614.81 million), which showcase India's manufacturing and agrarian capabilities.

**Chart 1: Principal Commodity Export by India to U.S [\$mn]**

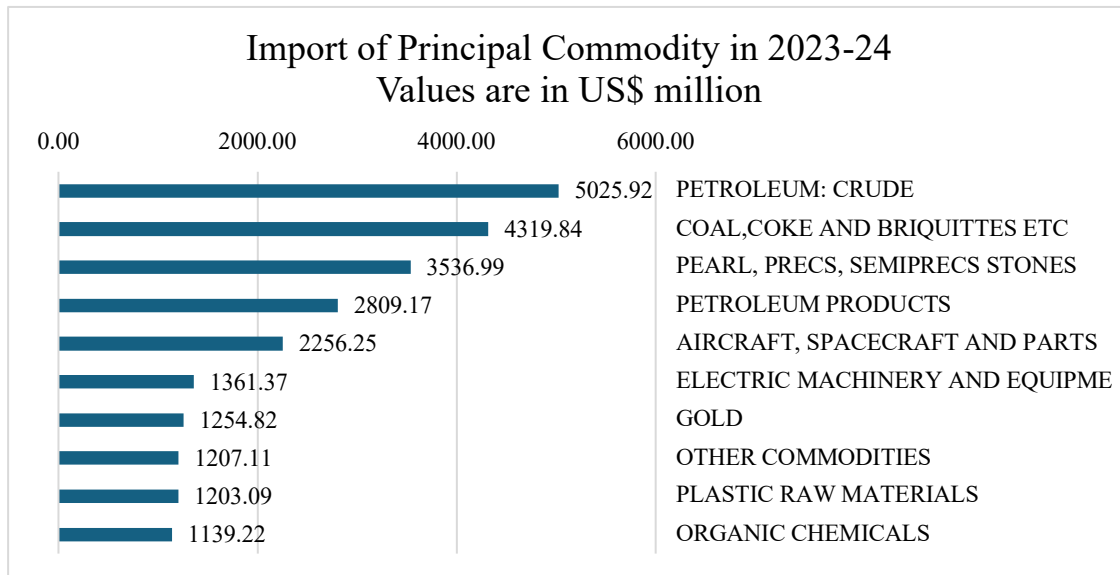


\*Figures from April to Nov' 24. Source: Monitoring Dashboard, Ministry of Commerce and Industry, GoI.

In contrast, India’s imports from the U.S. reflect its reliance on energy resources, advanced technology, and raw materials. Petroleum crude tops the list at \$5,025.92 million, followed by coal, coke, and briquettes (\$4,319.84 million), indicating India’s energy demands. Interestingly, pearls, precious, and semi-precious stones (\$3,536.99 million) also feature prominently in imports, suggesting a two-way trade in gemstones for value-added processing.

High-tech imports like aircraft and spacecraft parts (\$2,256.25 million) and electric machinery (\$1,361.37 million) emphasize India’s dependence on U.S. technology, while gold (\$1,254.82 million) and plastic raw materials (\$1,203.09 million) point to industrial and consumer needs. This bilateral trade structure underscores India’s dual role as a supplier of manufactured goods and pharmaceuticals and a consumer of energy, technology, and industrial inputs, shaping a dynamic economic partnership.

**Chart 2: Principal Commodity Import by India from U.S [ \$mn]**



\*Figures from April to Nov’ 24. Source: Monitoring Dashboard, Ministry of Commerce and Industry, GoI.

The recent imposition of a 25% tariff on global steel imports by the U.S. has introduced potential disruptions in India-U.S. trade relations, particularly affecting India’s steel exports worth \$2.76 billion. This move comes as part of President Donald Trump’s first major policy decision after assuming office as the 47<sup>th</sup> President, signalling reciprocal tariff on trade imbalances. In response, India is considering tariff reductions on U.S. imports to maintain trade stability and avoid a retaliatory cycle that could escalate into a trade war. According to media reports, India exports \$20 billion to US annually the engineering goods of which about \$5 billion get covered by the 25 per cent extra tariffs announced by US President Trump. However, the tariff issue will likely to be addressed by US and India through the Bilateral Trade Agreements (BTAs) negotiations.

The tariffs on Indian exports could significantly impact pharmaceuticals, gemstones, petroleum products, textiles, and electronics, all of which contribute billions to India's trade revenue. Pharmaceuticals, valued at \$8 billion in exports, face intense global competition, and added tariffs could erode profit margins and disrupt supply chains, making Indian generics less competitive in the U.S. market. Similarly, textiles (\$2.7 billion) and gemstones (\$6.6 billion) could suffer losses, affecting labour-intensive industries and causing potential job cuts.

### **Tesla Construction of factory in India will be unfair to US**

US President Trump stated that Tesla Chief Elon Musk would not be able to sell his cars due to high Indian tariffs if he opens factory in India. He also termed that will be 'unfair' to US. Trump cited illustrating India's tariff on automobile is as high as 100 per cent. Trump's reciprocal tariff is in pipeline by Apr'25 while the US President announce plans of imposing 25 per cent import duties on automobiles, semiconductors and pharmaceuticals.

Petroleum exports, which stood at \$5.8 billion, might see compressed margins if U.S. refiners turn to alternative suppliers. Further, India's textile and electronics sectors, already competing with Bangladesh, Vietnam, and China, could lose market share due to higher tariffs.

India exported \$4 billion worth of steel and \$1.1 billion in aluminium to the U.S. in FY23, with the U.S. being the largest market for Indian aluminium (12% share)<sup>2</sup>. But steel exports to the U.S. accounted for only 95,000 tonnes out of India's 145 million tonnes production in 2024, indicating that the broader Indian steel industry may not face immediate disruption<sup>3</sup>. The concern lies in profit margin reductions due to increased competition from diverted global supplies, which could lead to dumping in India's domestic market.

India has earlier retaliated against U.S. tariffs by imposing duties on U.S. apples and almonds in 2018, but these were withdrawn in 2023 after a bilateral agreement allowing duty-free Indian steel and aluminium exports up to 3.36 lakh tonnes annually<sup>4</sup>. Right now, India would explore cutting tariffs on select U.S. imports, such as agricultural products, machinery, and aerospace components.

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<sup>2</sup> Live Mint, <https://www.livemint.com/economy/donald-trump-steel-tariffs-aluminium-tariffs-trade-war-indian-exports-metals-production-economy-india-us-trade-11739519158084.html>

<sup>3</sup> The Times of India, <https://timesofindia.indiatimes.com/business/india-business/will-trumps-tariffs-on-steel-and-aluminum-impact-india-what-experts-say/articleshow/118117861.cms>

<sup>4</sup> Ministry of Commerce and Industry, Gov. PIB, <https://pib.gov.in/PressReleaseDetailm.aspx?PRID=1956692&reg=3&lang=1>



Despite having an initial expected downtrend trend of the domestic stock market, the recent downturn remains quite volatile, whereas the Sensex slipped below 75k on 24 Feb'25 due to uncertain global sentiment and foreign fund outflows amid the US tariff policies and trade tensions.

Recognizing the economic and diplomatic importance of U.S. trade relations, Prime Minister (PM) Narendra Modi on 14<sup>th</sup> Feb'25 visited U.S., engaging in high-level talks with President Trump, which marks the first official foreign leader visit under Trump's administration, highlighting India's strategic trade significance. According to media news, India is possibly organizing additional tariff cuts to promote U.S. exports to India and prevent trade tensions from escalating.

Regarding the steel and aluminium tariffs, Indian exporters are seeking alternative markets in Europe, the Middle East, and ASEAN nations to mitigate potential losses. Should additional tariffs extend to other sectors, export diversification would be essential. Also, India's IT and software services industry, which generated \$36.3 billion in U.S. exports in 2023, could face disruptions due to policy changes affecting skilled labour mobility<sup>5</sup>.

For India, higher U.S. tariffs reduce export competitiveness, potentially leading to job losses, higher production costs, and a shift in trade strategies. To counteract these effects, India is considering additional tariff reductions on U.S. exports in agriculture, machinery, and aerospace, ensuring a balanced trade environment while maintaining strong bilateral trade relations.

From the U.S. perspective, imposing tariffs on Indian imports raises consumer prices, especially for pharmaceuticals, textiles, and IT services. Higher duties could increase the cost of generic drugs, affecting U.S. healthcare affordability. Also, U.S. businesses dependent on Indian imports for technology, machinery, and petrochemicals may face supply chain disruptions.

If India retaliates with tariffs, U.S. exports in agriculture and energy could be affected. In 2023, the U.S. exported \$15.2 billion worth of mineral fuels and \$10.3 billion worth of aerospace products to India, making these sectors vulnerable to countermeasures. However, India's current strategy of tariff reductions rather than retaliation indicates a pragmatic approach aimed at preserving trade synergies and minimizing economic instability.

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<sup>5</sup> The Economic Times, <https://economictimes.indiatimes.com/news/economy/foreign-trade/indian-exporters-likely-to-gain-from-us-china-trade-war-sources/articleshow/117910539.cms?from=mdr>

It has, however, to be realised that imposition of an equal and matching tariff by India on American goods may seem to be theoretically feasible in this multi-polar world but this is practically difficult, if not impossible, because of a multitude of global and domestic factors. Some such contextually significant factors relate to the marked difference in the relative size, composition and heft of the American and Indian economies, the level of technological prowess in America, the extraordinary strength of the American “military-industrial complex” and America’s continued sway, despite some diminishing in recent years, on geo-strategic issues.

Theoretically, the bonhomie and friendship between the US and India, the two largest democracies in the world, may seem to be grounded in a relationship of equals. But an objective assessment will clearly bring out the inherent element of skew in this relationship.

Given India’s difficult relationship with China, there is no objective way, India can afford to offend USA in the multi-layered international relationship and economic setting. Hence, India’s response to this evolving issue must not be guided by unrealistic notions of the “realpolitik” but has to be gradual, measured and calibrated to overcome the travails of transition.

The U.S. tariffs present both challenges and opportunities for India. While some sectors may struggle, India's strong domestic demand, export diversification strategies, and diplomatic negotiations could help mitigate the impact. By adopting a non-retaliatory approach and engaging in bilateral trade discussions, India seeks to protect its economic interests while strengthening long-term trade relations with the U.S. The success of PM Modi’s diplomatic efforts and India’s strategic tariff adjustments will be crucial in shaping the future trajectory of India-U.S. trade relations. A real “MEGA” would be a win-win game leading to a pareto optimal solution.