

# US Tariffs & Their Impact on US and Indian Markets

# Introduction to US Tariffs

## Tariffs on Canada and Mexico:

- Effective Date: March 4, 2025
- 25% tariff has been imposed on goods imported from Mexico and Canada. These measures aim to address concerns over illegal immigration, the influx of fentanyl, and to reduce the U.S. trade deficit.

## Tariffs on China:

- Increase: Tariffs on Chinese imports have been raised from 10% to 20%, citing inadequate action by China against fentanyl shipments.

## Global Steel and Aluminum Tariffs & Reciprocal Tariffs:

- Effective Date: March 12, 2025
- 25% tariff will be reinstated on global steel imports, and tariffs on aluminum imports will increase from 10% to 25%. These measures aim to protect U.S. industries from unfair trade practices and global excess capacity.
- Trump announced that Reciprocal Tariffs will take effect on April 2nd, aiming to impose equal tariffs on countries taxing US goods, potentially impacting trade relations and global supply chains. Commerce and Industry Minister Piyush Goyal is visiting Washington to address complex trade issues and initiate discussions on a proposed Bilateral Trade Agreement.

## Market Reactions:

- Stock Market: The announcement of these tariffs led to significant declines in global stock markets. The Dow, S&P 500, and Nasdaq all experienced notable drops of 2-2.50%.
- Automotive Industry: Companies like Toyota reported a 5.8% decrease in U.S. sales for February, attributing the decline to consumer concerns over potential price increases due to the tariffs.

## International Responses:

- Canada: Prime Minister Justin Trudeau announced 25% retaliatory tariffs on U.S. goods in response to the U.S. measures.
- Mexico: President Claudia Sheinbaum is expected to announce a range of retaliatory options at an upcoming press conference.
- China: China plans to impose additional tariffs of 10%-15% on certain U.S. imports starting March 10, 2025.

# Impact of US Tariffs on India & the US

## Impact on US economy:

- **Higher Costs for Consumers & Businesses** : Tariffs act as a hidden tax, increasing prices for goods and services.
- **Supply Chain Realignment** : Importers may shift sourcing to Vietnam, Mexico, or Bangladesh to offset higher costs.
- **Stock Market Volatility** : Sectors relying on Indian imports (pharmaceuticals, auto components, technology) may experience fluctuations.
- **Limited Boost to Domestic Production** : Tariffs do not necessarily increase US manufacturing output or create new jobs.
- **Decline in Standard of Living** : Higher prices reduce purchasing power, affecting overall economic growth.
- **Risk of Trade Retaliation** India may impose counter-tariffs on US exports, impacting key industries like pharmaceuticals & agriculture.
- **Mixed Industry Impact** : Steel & select manufacturing sectors may see gains, but downstream industries (auto, construction) face higher input costs, reducing competitiveness.

## Impact on Indian Pharmaceutical Industry:

- India exports \$8.7 billion worth of medicines to the US annually, while importing only \$800 million from the US.
- India supplies 47% of US generics prescriptions and 15% of biosimilars, making it a key player in the US healthcare system.
- Generics account for 90% of US prescriptions and saved \$408 billion in 2022 alone.
- The price of generics has been eroding 10-11% annually, keeping drug costs low for US patients. Tariffs could reverse this trend.
- **Who Bears the Cost of Tariffs?**
  - Patients: If passed on, medicine prices will increase for US consumers.
  - PBMs & Distributors: Pharmacy Benefit Managers (PBMs) may be forced to absorb the additional costs.
  - Indian Pharma Companies: Some companies may have to adjust pricing and margins, but their cost advantage (20-30% lower than the US) remains.

## Conclusions:

- US tariffs may raise medicine costs for American patients, but their impact on India's pharma exports remains minimal due to India's strong export surplus. With India supplying ~44% of US pharma by volume and 47% of generic prescriptions, replacing Indian manufacturers solely through tariffs would be challenging. Additionally, India's PLI scheme supports local manufacturing, ensuring long-term growth and resilience in the pharma sector.

Sector impact	US import from India (\$ bn)	Tariff (%) imposed by		Companies will impact by Reciprocal US Tariff
		India	US	
<b>Chemicals &amp; Pharma</b>	18.4	9.7	1.0	Clean science Gujarat Fluorochemical & major pharma companies
<b>Electrical, telecom &amp; electronics</b>	14.4	7.6	0.4	Tata elxsi, eclerx solutions, Tata communication, Tech Mahindra
<b>Diamond, gold &amp; products</b>	11.9	15.4	2.1	Goldiam International
<b>Textile &amp; clothing</b>	10.8	10.4	9.0	Trident
<b>Machinery</b>	7.1	6.6	1.3	Elgi Equipments, Salzer
<b>Agricultural</b>	6.0	37.7	5.3	Rallies
<b>Iron, steel &amp; products</b>	5.4	4.5	2.0	Hindacol, Shivalik Bimetals
<b>Auto</b>	2.8	24.1	1.0	Sundram Fasteners, Bharat Forge, Samvardhan Motherson
<b>Plastics, articles</b>	1.4	9.9	4.4	Uflex, Shaily Engineering Plastics

Source: Economic Times

# India-US Bilateral Trade Talks

## Tariff Reductions and Sectoral Impact

### Bilateral Trade Agreement (BTA) & Tariff Negotiations

- India and the US are negotiating a Bilateral Trade Agreement (BTA), targeting \$500 billion in bilateral trade by 2030.
- The talks aim to address US President Donald Trump's reciprocal tariff threats, following similar measures against Canada, Mexico, and China.
- Commerce Minister Piyush Goyal is in Washington leading negotiations, with hopes of finalizing the agreement by year-end.
- India is considering lowering or eliminating import duties on US electronics, pharmaceuticals, and agricultural products to ease trade tensions.

### Electronics Sector

- India's smartphone exports to the US have surged from \$128 million in FY22 to \$5.6 billion in FY24.
- The IT Ministry and Commerce Ministry are discussing reducing smartphone import duties from 15% to zero for the US, as India imports a negligible number of smartphones from the US.
- Other electronic product tariffs under consideration:
  - Hearables & wearables: Currently 20% Basic Customs Duty (BCD) + 10% surcharge.
  - Consumer electronics (TVs, air conditioners, lighting, etc.): 20% BCD + 10% surcharge.
- India's electronics exports to the US stood at \$10 billion in FY24, with smartphones accounting for 56%, rising to 62% in FY25.

### Auto Component Exports

- The US is India's largest market for auto components, contributing 27% of total exports, reaching \$6.79 billion in FY24.
- Leading Indian auto component exporters to the US include:
  - Sona Comstar, Rane Group, Sansera Engineering, and others.
- Companies are reaching out to US partners to minimize potential disruptions and explore alternative export routes from geographies unaffected by proposed US tariffs.

### Pharmaceutical Sector

- The Indian Pharmaceutical Alliance (IPA) has recommended eliminating the 10% import duty on US drugs.
- The US does not impose any import duty on Indian pharmaceutical products, making this a key point in negotiations.

Source: Economic Times

# India-US Bilateral Trade Talks

## Tariff Reductions and Sectoral Impact

### Agricultural Imports & Tariff Reductions

- India is considering reducing import duties on key US agricultural products, a longstanding US demand:
  - Walnuts: Currently 100-120% duty.
  - Almonds: 42-120% duty.
  - Apples: 50% duty.
  - Cranberries: High duties under review.

### Textiles & Apparel Exports

- India's textile and apparel exports to the US grew by 7% in H1FY25, reaching \$21.35 billion.
- Ready-made garments accounted for 41% of total exports.
- The Tiruppur Exporters Association plans to engage with US buyers after discussions with Commerce Minister Piyush Goyal.

### Gems & Jewellery Exports

- India is a key supplier of cut and polished diamonds, gold jewellery, and other precious materials to the US.
- In 2024, India accounted for 12.99% (\$11.58 billion) of total US gem & jewellery imports, based on US International Trade Commission data.
- The Gem & Jewellery Export Promotion Council (GJEPC) is sending a team to the US on March 15 to meet major clients like De Beers Group, Tiffany & Company, and other stakeholders.

### Conclusion

- The India-US trade talks are focused on reducing tariffs to facilitate smoother trade flows and prevent US-imposed retaliatory tariffs.
- Key sectors affected include electronics, auto components, pharmaceuticals, agriculture, textiles, and jewellery.
- A successful BTA deal could significantly boost bilateral trade and investment opportunities between the two nations.

**Thank You**

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