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ELP Trade Update:

Reciprocal Tariffs

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Overview

What has changed for Indian exporters to the United States?

The U.S. President has declared a national emergency citing large and persistent trade deficits. To address this, the U.S. will now impose an additional *ad valorem* tariffs on all imports, including from India.

The U.S. has imposed a 'baseline' tariff of 10% on all countries. A list of 60 countries, including India, identified as major contributors to the U.S. trade deficit will face higher, country-specific tariffs ranging from 10% to 50%, based on their own tariff and non-tariff barriers on U.S. goods.

Imports of goods from India will be subject to a reciprocal tariff of 27% on the CIF value of the imported products.

When do the new tariffs come into effect for imports from India?

The new tariffs come into effect in the following manner:

- 10% tariff on *all imports* begins at 12:01 AM EDT, April 5, 2025.
- Country-specific higher tariff rates take effect from 12:01 AM EDT, April 9, 2025.

Goods already in transit before these dates may be exempt from the imposition of duty.

Products covered

Will this apply to all products exported from India?

Yes, unless specifically exempted.

Largely, the products exempted are:

- Those subject to U.S. trade law exemptions (e.g., 50 U.S.C. 1702(b), postal communications, information and information materials, baggage for personal use, and donated items)
- Certain products subject to Section 232 duties (e.g., for steel, aluminum, and autos/ auto parts.)
- Specific product exemptions like, pharmaceuticals, semiconductors, energy, copper, lumber, and critical minerals (for which separate measures may be announced)

Notably, for now, low-value shipments (under USD 800) from India continue to be duty-free, even with the new tariffs. However, once the U.S. Department of Commerce confirms that proper systems are in place to track and collect duties on these small shipments, the duty-free treatment could be withdrawn. For Indian exporters, especially those relying on e-commerce models, it's important to monitor developments on this front. Notably, the exemption for low-value shipments has been withdrawn for imports from China.

Is there any relief for products with U.S. value addition?

Yes. If the imported product contains 20% or more "U.S. content" (components produced or substantially transformed in the U.S.), the tariff applies only to the non-U.S. portion. In effect, the duties will be applicable in the following manner:

US Content	RT % Applicable
Less than 20%	27%
20% US Content	21.60%
35% US Content	17.55%
50% US Content	13.50%
75% US Content	6.75%

CBP will require documentation to verify this, including during import entry filing.

Interaction with existing duties

Will the new tariff apply over and above existing duties, including trade remedial measures?

Yes. The new *ad valorem* tariffs will apply over and above any existing duties, including MFN rates, anti-dumping duties, countervailing duties, and safeguard measures, unless specifically exempted. This means Indian exporters could face a cumulative duty burden, combining both prior trade remedies and the new reciprocal tariffs.

Illustration 1: One MT of Product X with CIF value USD 100 is imported into the US from India and the product has US origin content of USD 18 (i.e., less than 20%) with applicable basic customs duty (BCD) of 15% and applicable anti-dumping duties (ADD) of USD 20 per MT. The applicable duties on such imports into the US is given in table below:

Particulars	Before 12:01 AM EDT, April 5, 2025	Effective from 12:01 AM EDT, April 5, 2025	Effective from 12:01 AM EDT, April 9, 2025
CIF value of the product X	100	100	100
BCD	15	15	15
ADD	20	20	20
Reciprocal tariffs	**0**	**10**	**27**
Total duties	**35**	**45**	**62**

Illustration 2: One MT of Product X with CIF value USD 100 is imported into the US from India and the product has US origin content of USD 30 (i.e., more than 20%) with applicable basic customs duty (BCD) of 15% and applicable anti-dumping duties (ADD) of USD 20 per MT. The applicable duties on such imports into the US is given in table below:

Particulars	Before 12:01 AM EDT, April 5, 2025	Effective from 12:01 AM EDT, April 5, 2025	Effective from 12:01 AM EDT, April 9, 2025
CIF value of the product X	100	100	100
BCD	15	15	15
ADD	20	20	20
Reciprocal tariffs	**0**	**7**	**18.9**
Total duties	**35**	**42**	**53.9**

Legislative basis

6. What is the legislative basis for this action?

The tariff action is based on several U.S. laws that empower the President during times of national emergency or when addressing unfair trade practices. The key authorities cited are:

- International Emergency Economic Powers Act (IEEPA) – Allows the President to regulate commerce during a declared national emergency.
- National Emergencies Act (NEA) – Provides the procedural framework for declaring a national emergency.
- Section 604 of the Trade Act of 1974 – Allows the President to modify the Harmonized Tariff Schedule (HTSUS).
- 3 U.S.C. § 301 – Allows the President to delegate duties to other executive officials.

These provide a broad legal foundation to impose tariffs even outside traditional trade remedy processes.

President Donald Trump also invoked the IEEPA while announcing the imposition of additional 25% tariff on Canadian and Mexican imports and a 10% additional tariff on Chinese imports. This is extraordinary since this legislation has not been relied upon to impose tariffs before.

Impact

How were these reciprocal tariffs calculated?

The U.S. calculated these "reciprocal tariffs" by estimating the tariff level needed to reduce its trade deficit with each country to zero. The calculation used trade data for 2024 and assumed how sensitive imports are to price changes. The final tariff rates vary by country and reflect the combined impact of trade imbalances and barriers, with an average of around 45–50% for countries with large U.S. trade deficits. For India, the tariff is lower, suggesting the U.S. views India's trade barriers (such as environmental reviews, differences in consumption tax rates, compliance hurdles and costs, currency manipulation and undervaluation) as relatively less severe than others.

How will Indian exporters be affected?

Indian exporters to the U.S. are likely to face multiple challenges under the new tariff regime:

- ***Higher landed cost.*** The higher landed cost resulting from additional duties could make Indian goods less competitive, particularly in price-sensitive sectors, potentially leading to disruptions in existing export orders.
- ***Increased scrutiny.*** Exporters may also encounter increased scrutiny at the border, especially regarding the origin and U.S. content of their products, as certain exemptions will depend on their origin, or whether a minimum share of the product is sourced or substantially transformed in the United States.

That said, India may still retain a relative competitive edge compared to certain Asian peers like China or Vietnam. This has been discussed in further detail in the subsequent sections.

Are certain sectors more vulnerable than others?

Yes. Indian sectors particularly at risk include:

HS Chapter*	Description	Approximate Impact of reciprocal tariffs (27%) (USD Billion)**
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	3.89
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin.	3.21
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof.	1.92
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags.	0.84
73	Articles of iron or steel.	0.77
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof.	0.76
62	Articles of apparel and clothing accessories, not knitted or crocheted.	0.68
61	Articles of apparel and clothing accessories, knitted or crocheted.	0.65
03	Fish and crustaceans, molluscs and other aquatic invertebrates.	0.54
99	Commodities not specified elsewhere.	0.38
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.	0.38
57	Carpets and other textile floor coverings.	0.35
39	Plastics and articles thereof.	0.37
40	Rubber and articles thereof.	0.29
68	Articles of stone, plaster, cement, asbestos, mica or similar materials.	0.28

Source: TradeMap

****Annex I outlines exemptions at the 8-digit HS code level. However, due to the limited availability of accurate trade data at the 8-digit level in the public domain, our analysis is based on 2-digit HS chapters.***

*****(i) Assuming that the U.S. content of the imported products is less than 20% (ii) Calculated on the basis of Indian imports to the U.S. in 2024.***

How does the reciprocal tariffs imposed against imports from India compare against the tariffs imposed on imports from other Asian countries?

The reciprocal tariff imposed on Indian imports is relatively lower compared to those imposed on other major Asian exporters:

Country	Reciprocal tariff imposed
India	27%
China	34%
Japan	24%
Vietnam	46%
Thailand	37%
Singapore	*10%*
Sri Lanka	44%
Pakistan	30%
Malaysia	24%
Korea RP	26%
Taiwan	32%
Indonesia	32%
Bangladesh	37%
Source: Annex I	

This difference is reflected in the sectoral impact across key industries. For instance, in the apparel sector (Chapters 61 and 62), the estimated impact of the U.S. tariffs on Indian exports is approximately USD 1.33 billion, whereas the impact on Chinese exports is USD 6.25 billion, Bangladeshi exports is USD 2.74 billionand on Vietnamese exports is USD 7.05 billion. Apparel is a critical export sector for all four countries, making this disparity particularly significant.

In contrast, the estimated impact on Indian exports under HS Chapter 71 (Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin) is higher than its competitors.

Next Steps

What can the Indian government do?

Negotiations. The U.S. may reduce or remove duties if a trading partner, like India, takes "significant steps" to address non-reciprocal trade arrangements and align with U.S. priorities. A bilateral trade agreement between India and the U.S. appears to be on the horizon. According to reports, India has agreed to the Terms of Reference (ToR) for such a deal following intervention from the Prime Minister's Office.

Whether this agreement will help Indian exporters will depend on the final terms. If the U.S. agrees to exempt Indian goods from steep new tariffs, it could preserve or even improve Indian exporters' access to the U.S. market. However, this may come in exchange for India reducing tariffs on select American goods, which could increase competition for domestic producers. The agreement could offer predictability and some tariff stability, especially in a period of growing U.S. protectionism—but the benefits for Indian exporters will hinge on the sectors prioritized in the final deal.

WTO. The action raises serious concerns under WTO law.

- It violates the Most-Favoured Nation (MFN) principle by applying country-specific tariffs, which is not permitted unless under a valid exception.
- It likely breaches U.S.bound tariff commitments under the WTO, especially for products where duties exceed agreed bound rates.
- The use of a national security justification may attempt to invoke GATT Article XXI. However, it is unclear if such a defense will be successful. Any measure taken in the interest of national security must satisfy certain requirements. For example, in this instance, the United States may be required to demonstrate a 'war or other emergency in international relations.' The WTO Dispute Settlement Body (DSB) has suggested that this must involve a grave or serious situation of a political/military nature.

Affected WTO Members, including India, may challenge the measure at the WTO DSB, though the efficacy of such a challenge remains uncertain due to the current state of the WTO's Appellate Body.

Importantly, while the United States continues to participate in the WTO framework, its recent actions suggest a growing willingness to sideline WTO commitments when they are perceived to conflict with domestic economic or strategic interests.

Next Steps

What can companies do to manage the impact of the new U.S. tariffs?

Companies can explore a mix of mitigation strategies, policy-level engagement, and competitive opportunities to manage the impact.

First Sale Rule. One key mitigation tool is the First Sale Rule, which allows U.S. importers—under certain conditions—to base the customs value of a product on the first or earlier sale in a chain of transactions, rather than the final sale to the U.S. buyer. For instance, if a product is manufactured in India, sold to a trading company in Dubai, and then sold to a U.S. buyer, the importer can declare the value of the India-Dubai transaction for customs purposes. This can significantly reduce the import duty burden.

Contractual reviews. Companies should carefully review existing contracts to determine who bears the cost of the new U.S. tariffs. It may also be important to check whether *force majeure*, hardship, or termination clauses can be invoked due to sudden changes in trade policy or government action. Firms must consider revising their standard contract templates to include clear clauses on how future tariff changes, retaliatory duties, or regulatory shifts will be handled. Businesses may also consider adding temporary surcharges to invoices to offset the unexpected tariff burden. This could help preserve margins in ongoing transactions, especially where renegotiation is not immediately feasible.

Policy. On the policy front, companies should actively support industry-level representations and bilateral negotiations. The U.S. may reduce or remove duties if a trading partner, like India, takes "significant steps" to address non-reciprocal trade arrangements and align with U.S. priorities. Conversely, if a country retaliates by imposing duties on U.S. exports or other measures, the U.S. President may further increase or broaden tariffs under the order.

Opportunities. Indian exporters can also leverage their relative advantage, as the U.S. reciprocal tariff on certain Indian goods is lower than those imposed on major competitors, creating opportunities to gain market share.

Monitor changes. It is crucial to closely track U.S. policy updates, including possible product-level exemptions or future adjustments to tariff rates. Companies should also stay alert to any retaliatory measures by trading partners, which could impact export planning, pricing, and market strategy.

We trust you will find this an interesting read. For any queries or comments on this update, please feel free to contact us at insights@elp-in.com or write to our authors:

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