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Trump 2.0 Tariffs and India: The Good and the Not-so-Good

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Summary

The Trump 2.0 is likely to revive a bilateral trade deal with India with tariffs suiting the United States' (US) interests. More tariffs on other American trade partners may bring unexpected benefits for India, along with unpleasant surprises.

India's large trade surplus of more than US$36 billion (S$48.2 billion) with the United States (US) sets it up for tariff action by President Donald Trump's administration. Furthermore, during his campaign, Trump criticised India's high tariffs on several US exports and reflected on the possibility of a reciprocal tax on Indian exports.

Like with other trade partners, the Trump administration will use tariffs as a tool to obtain reciprocal market access for American goods in India. Reciprocal tariffs on Indian exports might adversely affect Indian exports.

Since losing the Generalised System of Preference benefits in 2019, Indian exports no longer have preferential access in the US market. However, they have been able to overcome the loss of preferential access by continuing to grow at a healthy rate. The share of Indian exports to the US in India's total exports has increased from 16.9 per cent in 2019-20 to 17.7 per cent in 2023-24.

From an Indian trade perspective, it is important for exports to retain their deep foothold in the US market. The latter is the biggest global market for Indian exports. The Trump administration can use this Indian imperative to its advantage by continuing to offer the 'carrot' of maintaining the current degree of access to the US market against the 'stick' of reciprocal tariffs. The 'stick' can be further used to convince India to lower tariffs on US exports. A bilateral tariff schedule drawn up according to the US export interests can be proposed to India through a bilateral trade deal. This would mean reviving the bilateral trade deal that could not be pushed through during the last Trump presidency.

A structured bilateral trade deal will work for India to the extent that it will not reduce the current market access for Indian exports. If India can negotiate selective preferential access for some of its top exports to the US, such as pharmaceuticals, diamonds, refined petroleum products and apparel, then the benefits will be more substantial.

India, however, needs to watch out for Trump tariff policies for other trade partners of the US and how these might influence prospects for Indian exports. Foremost among these are the tariffs that are likely on Chinese exports to the US. During his campaign, Trump had threatened to significantly raise tariffs on Chinese exports.

Several Chinese exports to the US are already subject to high tariffs, introduced by Trump during his first term, and, subsequently, on more items by the Joe Biden administration. More US tariffs on Chinese exports will accelerate the trend of tariff-induced diversification of export-oriented production from China.

Several businesses that were located in and producing from mainland China – both domestic and foreign – have relocated elsewhere. The move has been inspired by the urge to avoid US tariffs that exports from China attract. 'Connector' economies, such as Mexico, Morocco, Vietnam and Indonesia, have received most of the relocating investments. The shifting investments have reconfigured their supply chains, leading higher imports of the connectors from China. These higher imports have been accompanied by greater exports by these countries to the US. Thus, while exports by China to the US might have been brought down by tariffs, the relocated investments and reconfigured supply chains have ensured that the Chinese exports are able 'reroute' themselves into the US market.

More US tariffs can accelerate the diversification as production scrambles to shift from China. Might the scramble benefit India? If the Apple example of shifting parts of its iPhone production from China to India is an indicator, then India might be in for further pleasant surprises, as certain opinions suggest, particularly since some of the 'connector' economies might be nearing saturation in absorbing more tariff-diverted investments.

The tariffs on China might not, however, bring only benefits. The Trump administration may start acting on stopping the rerouting of Chinese exports to the US. This would mean bringing in suitable trade restrictions on exports from those economies deemed as hubs for rerouting Chinese exports. The restrictions might extend to more countries receiving the relocating Chinese investments.

Whether India might, in the US lens, end up being identified as a hub for rerouting Chinese exports will be known only over time. However, there is no doubt that the Trump administration's use of tariffs in bilateral trade ties will have cascading across-the-board effects.

For India, the implications of tariffs used by Trump 2.0 need to be looked at from a wider lens and longer-term perspective with the assumption that the good and not-so-good will coexist.

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