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Shaping a response to the U.S.'s reciprocal tariffs

Introduction of New U.S. Reciprocal Tariffs: Impact on Global Trade and India

1. Context: Shift Toward Protectionist Trade Policies

- The United States has introduced a new reciprocal tariff regime based on:
 - Trade imbalances with individual countries.
 - Commodity-specific considerations.
- This move has triggered global concern over rising protectionism and undermining of multilateral trade norms.

2. Structure of the U.S. Tariff Framework

- The reciprocal tariffs include:
 - An existing baseline import duty.
 - An additional country-specific tariff to address trade imbalances.
- These additional tariffs are:
 - Capped at 10% for 90 days (a temporary freeze).
 - Exempting one major country from the freeze, indicating a targeted approach.

Exemptions from Additional U.S. Tariffs

3. Sectors Excluded from Tariff Hikes

- Certain critical and strategic goods are excluded from the new additional tariffs, such as:
 - Steel and aluminum products
 - Automobiles and auto components
 - Copper and energy products
 - Pharmaceuticals and semiconductors



- **Lumber, bullion, and critical minerals**
- These exemptions reflect the U.S. dependence on imports in **industries where domestic production is insufficient**.

Impact on Indian Exports to the U.S.

4. Current Trade Landscape

- India's total exports to the U.S. are **modest and declining**, making it **less vulnerable** than larger exporters like China.
- However, the **new 26% effective tariff** (inclusive of all components) will impact **specific export sectors**.

5. Items Potentially Affected

- Key Indian exports to the U.S. include:
 - **Electrical machinery and mechanical appliances**
 - **Gems and jewellery**
 - **Mineral fuels**
 - **Iron and steel**
- Most vulnerable categories under the new tariff:
 - **Electrical machinery and made-up textiles**
 - **Mechanical appliances and small equipment**

6. Items with Minimal or No Impact

- **Pharmaceuticals** are currently exempt—protecting a **major Indian export industry**.
- **Gems and jewellery** may remain unaffected due to **inelastic luxury demand** in the U.S.

7. Relative Competitive Advantage

- Other low-cost Asian countries like:
 - **Vietnam, Cambodia, Bangladesh, and China**
 - Also face similar or higher reciprocal tariffs.
- This **levels the playing field** for India and may **improve India's competitiveness** in the U.S. market.



India's Strategic Trade Response

8. Risks of Retaliation

- **Retaliating with tariffs** on U.S. goods could:
 - Hurt Indian industries reliant on **U.S. imports**, especially **critical tech and energy products**.

9. Suggested Strategic Adjustments

- A **non-confrontational approach** may be more beneficial:
 - **Increase U.S. imports**, especially in sectors like **petroleum and high-tech equipment**.
- Outcome of this strategy:
 - **Reduces India's reciprocal tariff rate** from 26% to about **11.8%**.
 - Brings it **closer to the base rate (10%)**, minimizing cost impact.

10. Benefits of Import Adjustment

- Helps **protect Indian exporters** without:
 - Increasing the **Current Account Deficit (CAD)**.
 - Jeopardizing **bilateral trade ties** with the U.S.
- Signals India's **willingness to adjust trade composition** without confrontational policies.

Broader Global Trade Implications

11. Rise of Protectionist Tariff Practices

- Other major economies have followed similar patterns:
 - Tariff rates have increased dramatically, in some cases from **145% to 245%**.
- These actions contribute to:
 - **Uncertainty in global trade flows**
 - **Disruption in supply chains**
 - **Decline in global GDP and investment**

12. Undermining of Multilateralism



- Unilateral tariff hikes violate the **spirit of WTO norms**.
- They reflect the **growing irrelevance of rules-based trade**, leading to **disputes and trade wars**.

13. Role of the WTO and Regional Agreements

- **World Trade Organization (WTO) must:**
 - Lead reforms to **modernize global trade rules**.
 - Enforce principles of **fairness, transparency, and low tariffs**.
- In the interim, countries should:
 - **Strengthen regional trade agreements (RTAs) as temporary alternatives**.
 - Promote **diversification and supply chain resilience**.

Conclusion: Balanced Diplomacy and Reform Needed

14. India's Way Forward

- India should pursue a strategy that:
 - Protects **export sectors**.
 - Avoids **retaliatory escalation**.
 - Leverages **bilateral negotiations** to reduce frictions.
- Focus should remain on:
 - **Expanding trade diversification**
 - **Reforming global trade platforms**
 - **Strategic trade alignment** with allies and emerging markets.

Source: <https://www.thehindu.com/opinion/op-ed/shaping-a-response-to-the-uss-reciprocal-tariffs/article69457473.ece>