US Tariffs

Relative disadvantage for India, manageable impact

The US has proposed additional Section 301 tariffs of up to 25% on India, leaving it at a disadvantage to most Asian peers, although the rate could decline to 17% under an India-US trade deal. The effective hit should be smaller than the headline rate, given exemptions for key export categories, while frontloading ahead of implementation should support near-term exports. As during the previous tariff episode, exporters are likely to pursue geographical diversification, although the West Asia conflict could make this more difficult. More broadly, India has weathered tariffs and geopolitical disruptions well so far, with growth and external balances remaining comfortable. Growing US tariff backlash and upcoming public hearings could still lead to some moderation, while progress on the bilateral trade agreement remains crucial.

India loses its relative advantage over most Asian peers

The USTR has proposed additional Section 301 tariffs on 14 countries, with rates ranging from 15% to 35% and broad exemptions for products already covered by Section 232 or specified in country-wise annexes. India faces a tariff of up to 25%, net of the existing 10% Section 301 levy, although this could be lowered to 17% if an India-US trade agreement is reached. The proposed rate is higher than those for Bangladesh, Indonesia, Malaysia, and Thailand (18% each), as well as Japan, Korea, and Taiwan (15%), leaving Indian exports relatively disadvantaged against most Asian competitors; only Vietnam faces a higher proposed rate of 35%. China's new levy is lower at up to 20%, but its all-in tariff burden remains substantially higher owing to legacy Section 301 duties. This marks a deterioration in India's relative tariff position: unlike in the earlier round, when India enjoyed a lower tariff than several competing Asian exporters, the proposed levy now puts it at a disadvantage to most regional peers. However, the effective incremental hit should be smaller than the headline 25% suggests, given exemptions for electronics, pharma, energy, and goods already covered under Section 232.

Frontloading and diversification likely to soften the near-term hit

The 2025 experience offers a template: India's exports to the US initially soared as exporters frontloaded shipments but then fell sharply after the tariff rate was raised to 50% in late Aug-25. India's US exports rose to an average of $8.6bn/month during Feb-Jul 2025, vs $6.5bn/month in the previous six months, with growth rates of 15-20% yoy. A similar response can be expected, with the tariff not taking effect before Jan-27 at the earliest. US exports are already running at a monthly average of $8.4bn for FY27TD, with growth in recent months at >30%. However, a further increase in nominal terms due to frontloading is possible, while growth rates are expected to stay high for the next few months as the base is favorable. Notably, India also managed the previous tariff disruption via geographical diversification: India's US exports declined 10% from Sep-25 to Mar-26, while its exports to the rest of the world (RoW) rose 3% over the same period. It is likely that this strategy will continue, with RoW exports also likely to see strong growth in the months ahead. Electronics, energy products, and pharma remain exempt from tariffs, which should continue to drive US exports ahead, while textiles, gems and jewelry, and marine products are likely to see slower growth.

India remains on a strong footing, while growing tariff backlash may cause rethink

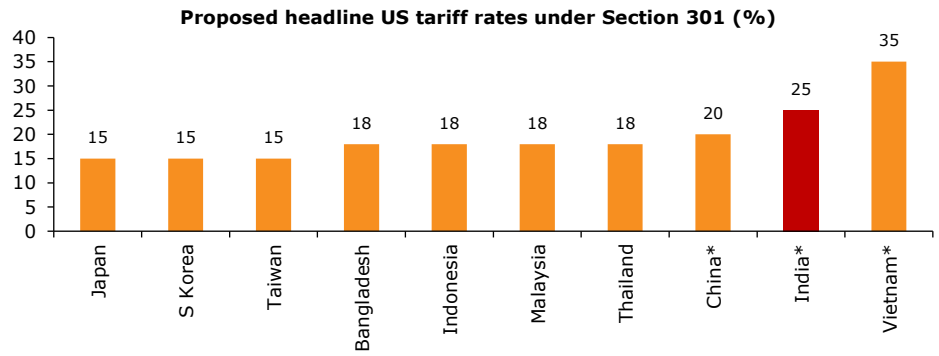
India has managed to weather these external storms (tariffs, West Asia conflict) over the past 18 months, with relatively strong GDP growth (FY26: 7.8%; 1HFY27E: 7.9%), while goods exports have risen 22% for 7MFY27, and FY27E CAD/GDP is <1.5%. We continue to expect strong export growth (>15%) for FY27E, with frontloading of US exports aiding this. There is also increasing tariff fatigue globally and in the US, with US polls showing 62% public support for repealing tariffs. Markets are far more concerned with the ongoing AI selloff, as well as the potential path for Fed rates. These tariffs are set to increase US inflationary pressures, putting further pressure on the Fed to raise rates. While Section 301 tariffs are on more solid legal footing and harder to challenge in court or via Congress than the earlier IEEPA tariffs, the Republicans' resounding midterm loss may mean that there is some moderation in these tariffs, with public hearings scheduled for late Jan-27. Additionally, ongoing negotiations on the India-US bilateral trade deal will be crucial to ensure a lower tariff rate (17%) and preferential access for Indian exports to the US market.

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Exhibit 1: India now potentially facing a higher US tariff rate than most Asian peers



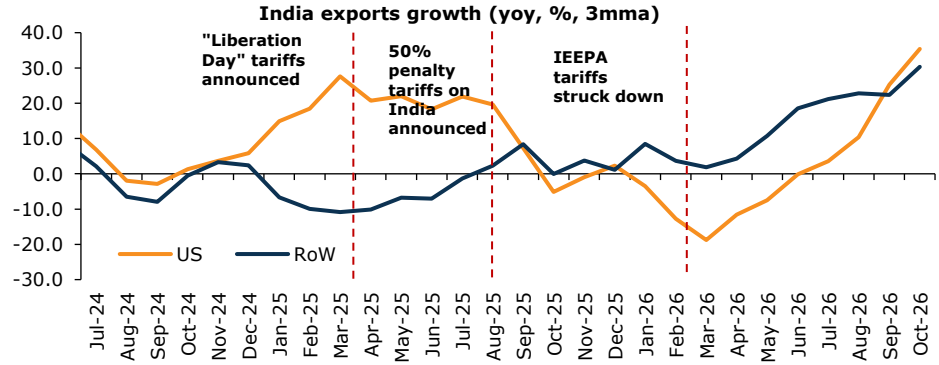
*Source: USTR, Emkay Research. *Note: India's rate could fall to 17% if a bilateral trade agreement is reached; Vietnam's would fall to 20% if it agrees a bilateral trade deal with the US; China's rate could rise to 40% if a deal is not reached, and will be added to earlier Section 301 tariffs imposed in 2018*

Exhibit 2: Global Section 232 tariffs remain in place

Sector/Product	Section 232 tariff rate
Steel	50%
Aluminium	50%
Copper	50% on semi-derivative/finished copper
Automobiles	25%
Auto parts	25%
Medium/heavy trucks and buses	25% on trucks/10% on buses
Lumber/wood products	10-25%

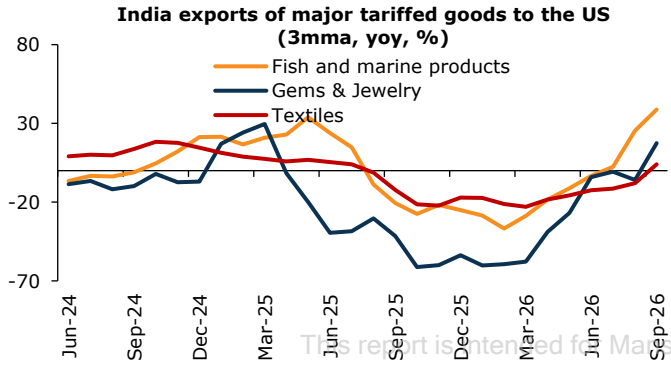
Source: The Budget Lab, Emkay Research

Exhibit 3: India's exports to the US have been surging recently, with this expected to continue



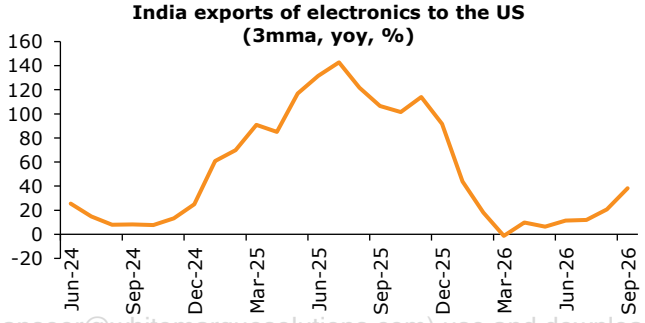
Source: CEIC, Emkay Research

Exhibit 4: The recovery in exports of major tariffed sectors may be hit, albeit after frontloading



Source: CEIC, Emkay Research

Exhibit 5: Electronics exports remain exempt and should thus continue to see strong growth ahead



Source: CEIC, Emkay Research

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