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Trade, tariff and Trump: How India can beat the big likely disruption in making

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Synopsis
India should seek comprehensive engagement with the incoming Trum administration to address issues in trade, investment, technology, and fi on maintaining supply lines and diversifying markets is vital, particularly pharmaceuticals, jewellery, and services. Leveraging opportunities from is crucial.

To beat Trump's coming tariff tantrum, India may need to "plan first, plan hard, and yet plan fast."

India should have comp engagement with the U administration led by P **Trump** takes over. India should explore a comprehensive new institutional framework to address the multiple issues that arise from trade, investment, technology and finance linkages. India should urgently consider appointing a Task Force or create other institutional mechanisms that bring in domestic policy coherence on these lines.

The Trump 2.0 administration, with its America First policy priority, is likely to identify countries and sectors that can provide the best recourse for reducing imports. They may also like to focus on steps that bring in manufacturing from their partners in the current value chains, which may mean a greater emphasis on Mexico, Canada, and China with whom US trade deficit is more than 40 per cent. India, with trade surplus of US$ 33.8 billion, is at the 9th position.

On this occasion, the New Delhi based independent policy research institute, Research and Information System for Developing Countries (RIS) released a special report and hosted a Briefing Session on "Trade, Tariff and Trump" on 31 December 2024. The session addressed the anticipated economic and trade implications of the incoming Trump 2.0 administration. Participants noted that despite the US economy performing robustly - exhibiting a GDP growth rate improving from 1.9 per cent in 2022 to an expected 2.7 per cent-2.8 per cent in 2024 - the trade deficit would remain a priority concern for the incoming Trump administration.

It was emphasized that “we may get to know the trends based on the first day executive action about the direction and speed at which the US administration will take, but going forward, managing trade disruption cannot be conjured up overnight. So, India may need to plan first, plan hard, and yet plan fast.”

“We need to deepen trade linkages at sectoral and product level by identifying issues related to threats and opportunities before devising policy actions. In terms of sectors and products of importance, end-use goods - consumer goods - may be a higher target for the US administration to impose tariffs. India’s exports in pharmaceuticals, gems and jewellery, fisheries, particularly shrimp, stand out as easy targets. India needs to get the supply lines for pharma, like APIs, lined up with suppliers, to ensure quality to meet the US FDA standards, and look for additional markets beyond the US to soften the impact. For jewellery, value addition may become a key imperative to stand out as a desirable import for the American consumer. For shrimp, sanitary and phytosanitary measures may need to be strengthened.”

There are other manufactures and other goods down the line that may also need proactive advance action, like leather goods, textiles, plasticware and base metal articles. For this set of items, we may have both threats and opportunities, as we compete with several other countries for the US market. Some of them, like China, Mexico and Canada, may be targeted by the new US administration equally or even more, giving India an opportunity to fill the space vacated by them. During Trump 1.0, India could not leverage such action fully as China used Mexico as a manufacturing base for exporting to the US the items targeted by tariffs, thus continuing its dominance. This time it will need to be done fast so that the reactive actions by these countries do not displace us soon.

India is well entrenched in the services sector in the US, but there is inordinately high reliance on H1B visa as a tool for service delivery. Service delivery business model is changing rapidly, so the provision of servicers from BPOs etc. stationed in India may not benefit as much from the time-zone advantage any longer. India may like to increase its focus on professional services and maintenance, repair and overhaul (MROs) services, and similar other service sub-sectors.

In terms of technology driven products, India has entered the US market in all segments. US tariffs are the lowest in the high technology products (0.2 per cent), so they may be targeted for tariff hikes by the new administration. To avert losses, tie up with our US importers need to be strengthened so that they lobby for their own needs.
However, low technology products have high US tariffs. We may be left with an avenue there to improve our participation in the value chains being built up in the US manufacturing sector.

Given the intrinsic linkage between trade and investment, India may also focus on rapidly reviewing its bilateral investment treaty model to support sustainable trade initiatives.

Since US tariffs are likely to impact countries like China, the impact of that US action on India’s trade and India’s position in the US market needs to be studied. It is necessary to tie up the relevant markets for relevant sectors, targeting for US tariffs, to fend off any threat arising out of the impact of US tariffs on China.