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# India is no longer the "tariff king"



India is well on its way to being one of the few economies that will be spared tariffs on exports to the US. Donald Trump's policy of imposing higher tariffs on all trading partners in the world based on the principle of reciprocity may have India as one of the few exceptions.

The current course of **negotiations** between the trade representatives of both countries, which are heading towards a compromise, indicates a more lenient trade treatment of India.

Should the unofficial signals from these negotiations prove accurate, the Indian economy can confidently anticipate the start of additional tariffs on imports to the US from all regions of the world on 2 April, as previously **announced** by Washington.

A high-level American delegation of trade representatives has been in New Delhi since Tuesday as a sign of the administration's "commitment to advancing a productive and balanced trade relationship with India."

New Delhi has contributed to this benevolent approach by the American negotiators because, on the eve of the dialogue, it had already taken a major step towards defusing tensions regarding a possible tariff "war".

The government lowered tariffs on 55% of the goods India imports from the US, worth about USD 23 billion. They affected an expansive range of goods that were previously subject to tariffs of between 5% and even 30%.

## Mutual concessions

While this decision has undoubtedly made the ongoing trade negotiations easier, it has also shifted the obligation to make concessions to the American side. President Trump has already hinted at a softer approach towards India when he **said** last Monday that the US could be "nicer than that." He was referring to his previous tough announcements of imposing reciprocal tariffs on anyone with restrictions on US imports.

Although he was not directly referring to India at the time, Trump's announcement that the US could be more tolerant of some partners came just a day before the start of the India-US dialogue in New Delhi.

## Both partners have good motives to compromise and avoid confrontation

With India's concession, this announcement by the American president suggests a favourable deal, i.e., India's exemption from American global tariff "revenge".

Both partners have good motives to compromise and avoid confrontation. Their annual trade volume is around USD 190 billion, making the US a prime foreign trade partner for India.

Moreover, two-way trade benefits India by some USD 45 billion. The Trump administration wants to remedy this imbalance, and they see increasing tariffs on imports from India as an important tool in this endeavour.

## Protect exports

On the other hand, New Delhi also has enough reasons to prevent a tightening of trade, as a large proportion of exports come from the driving sectors of the Indian economy, especially industry and IT.

In this respect, Trump's recent **decisions** to impose 25% tariffs on imports of all cars from abroad are particularly worrying for the Indian economy.



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This decision also applies to imports of car parts, which is particularly problematic for Indian companies, as the American market is their largest customer, importing more than USD 1.8 billion worth of these goods annually.

This total is more than Indian auto parts manufacturers export to the next four largest markets: Turkey, Brazil, Germany, and Mexico.

## Compromise instead of confrontation

The US administration is showing signs that it will treat India differently from its other major partners, particularly Canada and Mexico, as well as the EU, when it comes to the introduction of reciprocal trade tariffs.

One of the reasons for this is that New Delhi has taken steps in the run-up to the tariff increase announced by the US to soften the image that the new administration in Washington interprets as hostile. Other major exporters to the US, such as Canada and the EU, have chosen the path of confrontation with Trump's tariff policy.

At the same time, it is easier for Washington to negotiate with New Delhi because there are no non-economic barriers with India regarding tariffs, especially with regard to the illegal influx of migrants into the US and drug smuggling.

## The rapprochement in trade policy is the result of a joint strategy to contain Chinese influence in the Indo-Pacific region

Behind the expectation that the US and India will avoid a tariff war and find a middle ground is the Trump administration's long-term focus on strengthening relations with the Narendra Modi government, which is a partner in many respects.

Above all, this includes the shared expectation that the current trade volume will more than double to around USD 500 billion per year.

The rapprochement in trade policy is certainly the result of a joint strategy to contain Chinese influence in the Indo-Pacific region as well as globally. Taken together, this suggests that the Indian economy can look forward to 2 April and the announced increase in US tariffs on imports from around the world with far less concern than other major economies in the world, which are also the largest exporters to the US.