Quickonomics

June 23, 2025

Fathoming the nuances

Likely hits and misses in the upcoming US-India trade deal

- The imminent bilateral trade agreement will likely lead to reduction in India's goods trade surplus with the US
- India would be able to import more energy products, certain agriculture products and defence equipment, among others, from the US
- Although the US is India's largest export partner, there is scope to increase exports further in areas such as smartphones, certain pharma products and labour-intensive exports such as textiles and gems and jewellery

The US announced reciprocal tariffs on India and a host of other nations on April 2, 2025, and then paused the increase for 90 days from April 10 to negotiate trade deals with these countries (for India, the reciprocal tariff was 26%, lower than the tariff on many other Asian peers).

That said, during the pause period, a 10% base tariff remains applicable (over and above the existing tariffs) on all countries[1], including India.

As India negotiates a trade deal with the US, called the bilateral trade agreement (BTA) — the first tranche of which is targeted to be completed by the fall of 2025 — we take a deeper look at the merchandise trade data of the two nations to understand the areas of mutual benefits and the challenges of enhanced trade.

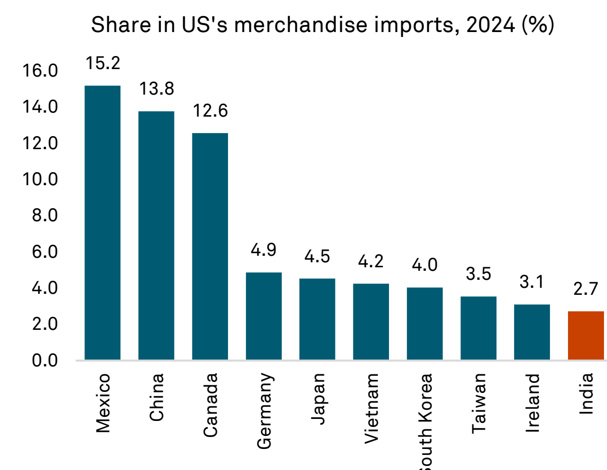
To begin with, India should be prepared to see more imports from the US under the BTA. This is because India's tariffs are much higher than those of the US and bringing these down would be advantageous to exporters in the US.

India's exports, however, are unlikely to see a major spike because the focus of the Donald Trump administration is to reduce its trade deficit with India, and most of India's top exports to the US are already duty-free (i.e. before the application of baseline 10%, which is applicable since April 10). Besides, the export potential would also depend eventually on the amount of tariff India faces when compared with other competing nations.

Exports: Some potential to improve

The US is not only the world's largest economy, but also the world's largest importer. In 2024[2], its goods imports stood at $3.36 trillion (in contrast, China and Germany, the second- and third-largest importing nations, recorded $2.59 trillion and $1.43 trillion worth of goods imports, respectively), according to ITC Trade Map[3]. But India's share in the US's global imports was just 2.7% (see Chart 1). Thus, there is some scope for India to increase its exports to the US.

Chart 1: India accounts for only a small part of the US's imports



Source: ITC Trade Map, Crisil

[1]Except China, on which the tariff was actually increased, before the recent truce between the US and China
[2]All analysis in this note is for calendar years
[3]A tool developed by the International Trade Centre (ITC) to analyse international trade data

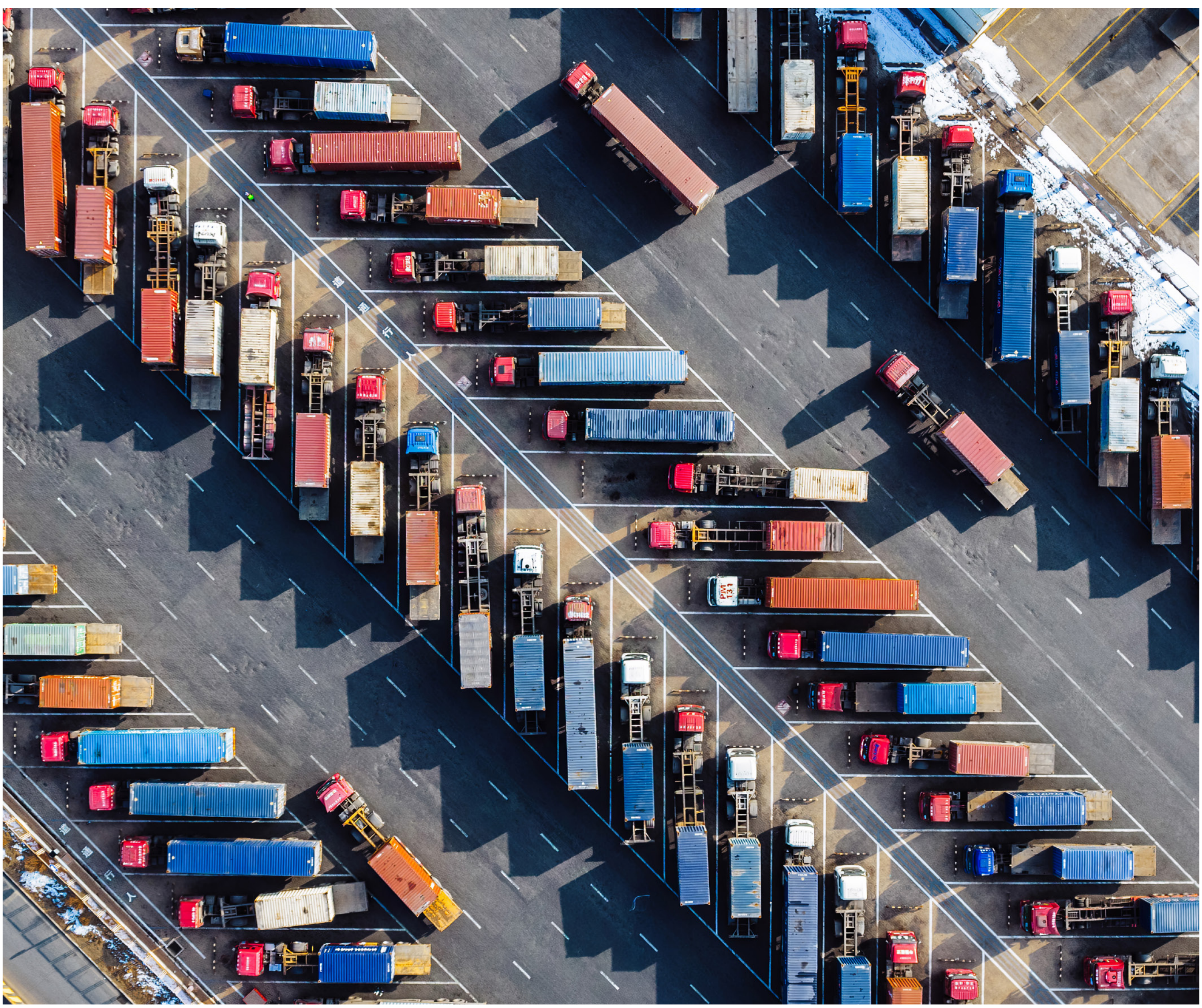
To understand the areas where India can potentially increase exports to the US[4], we assess the following two matrices:

1) **Low penetration:** Among the top 25 items India exports to the US (see Chart 2), products such as diamonds, marine products and bed linen already have a high penetration[5] there. The penetration remains low for others such as smartphones and certain pharma products.

   Also, only two of India's top 25 export items faced the most favoured nation (MFN) tariff in 2024; others were duty-free[6]. Clearly, this means Indian goods will have to become more competitive to gain further market share.

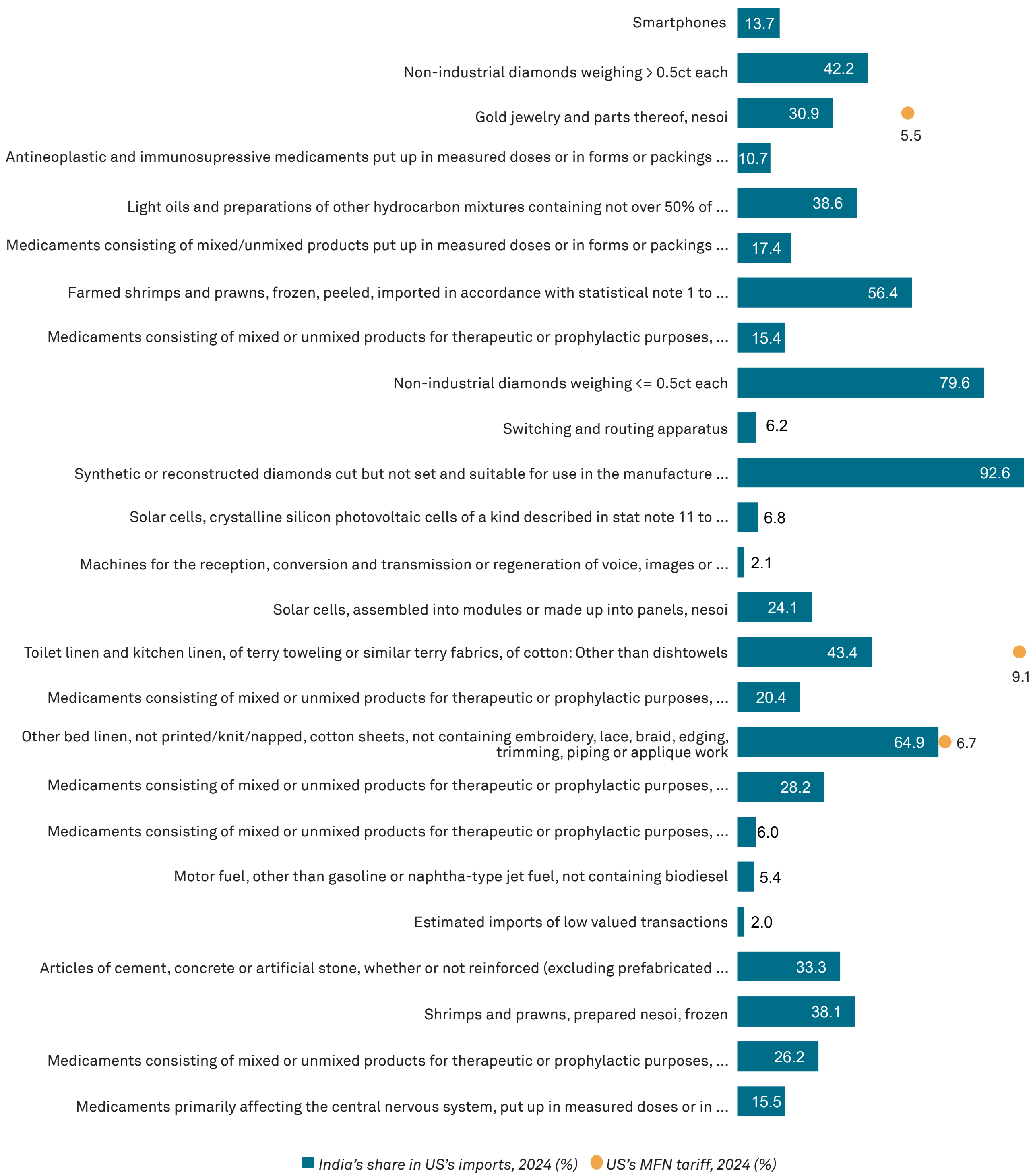
2) **Tariff hurdle:** Though a vast majority of India's exports to the US (including most of the top items) are duty-free, several products attract MFN tariffs. For instance, out of the US's goods imports of $91.2 billion from India in 2024, $32.9 billion worth of goods (36%) attracted tariffs.

   Chart 3 shows US's top 25 tariffed import items from India in 2024. These 25 items accounted for 10% of the imports from India in 2024.



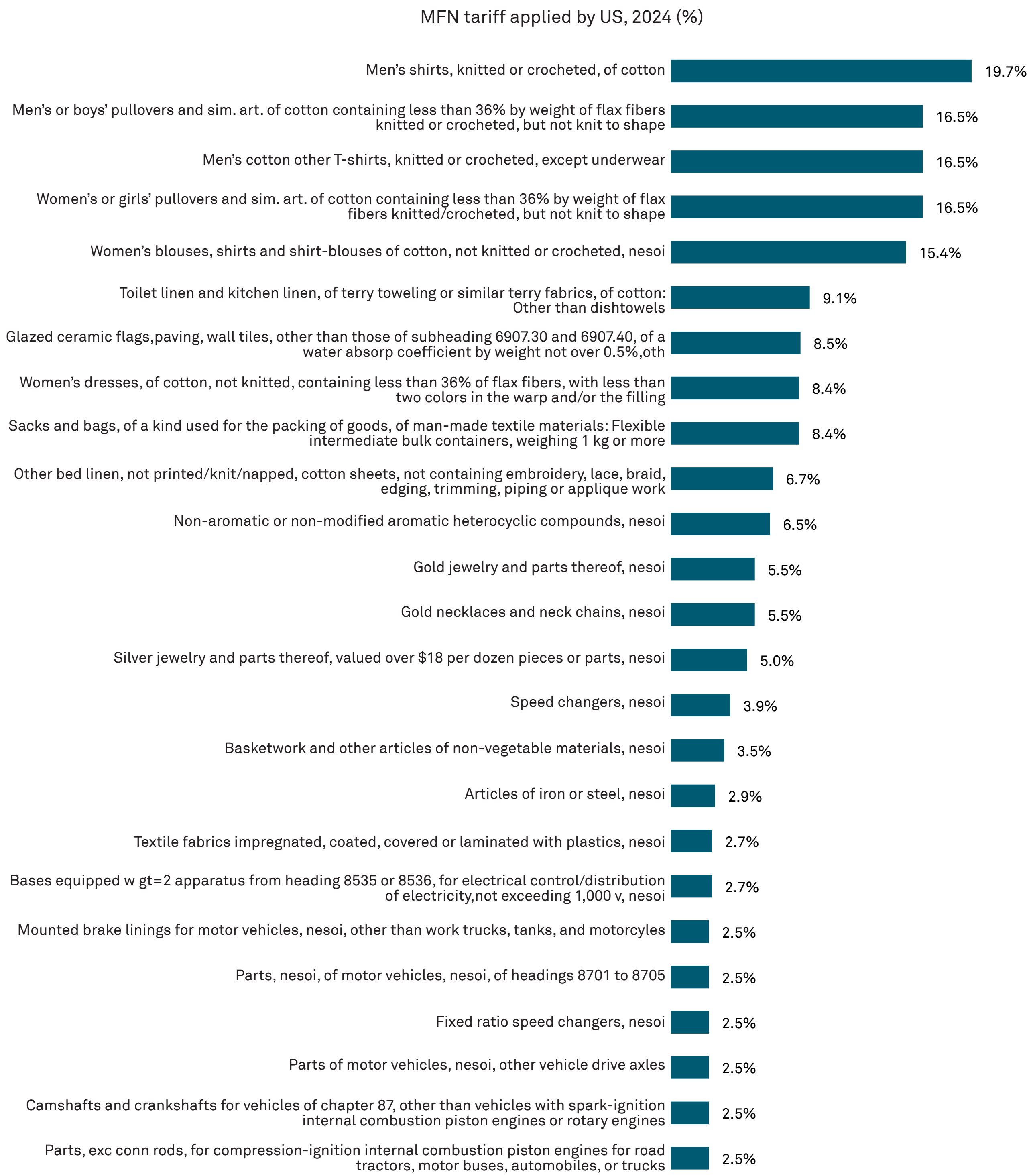
[4]For this analysis, we have considered the most granular classification of trade data, i.e. 10-digit tariff line data by ITC
[5]Products for which India's share in the US's global imports is greater than 20% have been defined here as having high penetration
[6]As of now, there is an additional 10% base duty over and above these MFN rates, barring on goods exempted from the reciprocal tariff list, such as pharma, energy and electronic imports. At the same time, sectors such as steel and aluminum, and auto face higher tariffs of 50% and 25%, respectively

Chart 2: Many of India's top exports to the US have low market penetration



Note: The chart shows India's top 25 exports to the US in 2024, in descending order of their share in the same. Where tariff rate is not indicated, products attract zero duty. Nesoi: not eleswhere specified or included
Source: ITC Trade Map, US International Trade Commission (USITC), Crisil

Chart 3: Some of India’s textile items face high tariff in the US



Note: Nesoi: not elswewhere specified or included
Source: USITC, Crisil

Key takeaways for export potential

Juxtaposing the information in Charts 2 and 3, we can infer that export potential exists in the following:

- **Smartphones** are India's top export item to the US and are duty-free but represent only a small share (13.7% in 2024) of smartphone imports by the world's largest economy. India has to compete with major players such as China and Vietnam. But that also means there is potential to increase these exports (though the current stance of the US President has been against this as he favours domestic manufacturing of smartphones). As India is looking to increase manufacture of mobile phone components, the BTA could bode well for backward integration in the smartphone manufacturing ecosystem in the country.
- While the US is already a large market for Indian **pharmaceutical** exports[7] (38% of India's pharmaceutical exports in 2024), some pharma products have relatively less penetration. This shows scope for an increase. According to Chart 2, such products are:
    - 3004909215: Antineoplastic and immunosuppressive medicaments[8] put up in measured doses or in forms or packings for retail sale
    - 3004909221: Medicaments consisting of mixed/unmixed products put up in measured doses or in forms or packings, put up in measured doses "including those in the form of transdermal administration systems"
    - 3004909239: Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, put up in measured doses "including those in the form of transdermal administration systems"
    - 3004909240: Medicaments primarily affecting the central nervous system, put up in measured doses or in forms or packings for retail sale, nesoi (not elsewhere specified or included)
- Some **labour-intensive goods** could also become competitive. These now face high import tariffs in the US. Both textiles and gems and jewellery top this list:
    - **Textile products:** Textile products are among the major exports to the US that attract tariffs (see Chart 3). Lower tariffs under the BTA can help India compete with other major textile exporters such as Bangladesh, China and Vietnam.

      While some textile products such as toilet linen, kitchen linen and bed linen already have a considerable market share (which should get bolstered by the tariff reduction), the market penetration is low for products in the readymade garment (RMG) space (such as men's T-shirts and pullovers). These stand to gain with a tariff reduction.

      It is worth mentioning here that synergies in textile trade can be enhanced from a zero or reduced duty on India's import of cotton from the US, particularly as India's cotton production is declining. This can help cater to the rising demand for RMG from the US, provided the duties on such imports are reduced.
    - **Gems and jewellery:** Another sector where the US is a large export destination for India is gems and jewellery. Within this, while polished diamonds (US's second-largest import item[9] from India after smartphones) are duty-free, other items such as gold and silver jewellery attract import duties (5-5.5%). These are likely to get a push after tariff reduction.

Imports: Mutual benefits in some cases, limited in others

Given that India applies much higher tariffs on US imports than vice versa, a lowering of tariffs under the BTA would make US goods more competitive in India. This would increase imports from the US. In fact, the US has categorically said that it wants to reduce its trade deficit with India (among other nations) and has complained that India's high tariffs and non-tariff barriers have been a hinderance for American companies looking to increase their exports. In 2024, US exports to India were $41.7 billion, i.e. just 2% of its global merchandise exports of $2.1 trillion (see Chart 4).

[7]It is noteworthy that India, the world's largest supplier of generic medicines, caters to over 40% of generic medicine demand in the US
[8]Medicaments mean pharmaceutical products
[9]Share of smartphones In India's merchandise exports to the US in 2024 stood at 7.7%, followed by polished diamonds at 6.3%

Chart 4: India accounts for a small part of the US's exports

Source: ITC Trade Map, Crisil

It is imperative to understand the categories likely to see a rise in imports from the US and also to assess the trade complementarity — in the sense, is the US an exporter of the products that India needs? If yes, would it make sense to import those items from the US, taking into consideration factors such as transportation cost and transit time.

Looking at the granular data on India's imports from the US through the above lenses, the following inferences show where imports could rise and where the prospects could be limited:

- **Agriculture:** Agriculture is a highly protected sector in India, as in many other countries. According to the World Trade Organization (WTO), simple average MFN tariff applied by India in 2024 on agricultural products was 40.6%, compared with 11.6% on non-agricultural products (in comparison, simple average tariffs applied by US are 6.6% and 3.4%, respectively). This is largely to protect the livelihood of Indian farmers, which form a large part of our population. Hence, the country may not offer much tariff concessions in this space. We had seen this in the recently concluded trade deal between India and the UK too.

  India has already shown its discomfort in allowing US agriculture products such as genetically modified (GM) soyabean and maize and dairy products (on account of controversial feeding practices of dairy cows, which often include animal byproducts).

  That said, imports of certain agriculture products such as walnuts, pistachios and cranberries could get a fillip as India's share in US exports of these items was relatively low — at 19.4%, 5.0% and 3.1%, respectively — in 2024. This contrasts with almonds, where India's share was a hefty 70.5% in 2024. This is one of the US's top agriculture export items to India.

- **Civilian aircraft, engines and parts:** This is the US's top export item, accounting for 6% of its merchandise exports of $2.1 trillion in 2024. As far as exports to India are concerned, this was the second-largest item (after crude petroleum), accounting for 6.8% of the US's $41.7 billion merchandise exports to India in 2024. With India's aviation sector growing, there is scope to increase these imports.

- **Energy:** There seems to be good complementarity in the energy space as the US is a large exporter and India is a large importer of energy commodities. But the dynamics differ based on the energy product.

  - **Crude petroleum:** This is the second-largest export item of the US to the world (after civilian aircraft and engine parts) and the largest to India. At the same time, it is India's largest import item globally.

    In 2024, the US exported $6.5 billion worth of crude oil to India, which accounted for 16% of its merchandise exports of $41.8 billion to India that year. From this side, the US's share in India's crude oil imports is rather miniscule at 3.7%, as it imports mostly from Russia, Saudi Arabia and Iraq.

    However, the prospects of increasing crude oil imports from the US would have to be viewed against challenging factors such as higher cost of transportation[10], including the longer transit time.

  - **Liquified natural gas (LNG):** The US is a large exporter[11] and India a large importer of LNG, providing a mutually beneficial ground. Here, the synergy seems to be much better than that in crude petroleum as the US is already among the top three suppliers of LNG to

[10]*Shipping costs to import US oil to India are $4-6 per barrel compared with $1.5-2 per barrel from the Middle East, as per industry estimates*
[11]*LNG was US's fourth-largest export item, accounting for 1.4% of its global merchandise exports in 2024*

India (in 2024, it accounted for 17% share in India's LNG imports). With favourable factors such as US natural gas prices being more stable than those in the Middle East (India's largest LNG import partner) and long-term contracts being signed between Indian entities and US suppliers, there has been an increase in the import of this commodity from the US.

- **Defence:** Even as India is trying to increase its defence production and export capabilities, it remains one of the largest arms importers. At the same time, the US is the world's largest arms exporter. While Russia has been India's largest arms supplier traditionally, its share in India's arms imports has come down in recent years. This has created space for western suppliers, led by the US, to step up their sales. In fact, in 2023, the US and India launched a bilateral Defense Acceleration Ecosystem (called INDUS-X) to facilitate defence collaboration between the countries. Hence, defence imports could see a rise under the BTA.

Conclusion

Given that India has much higher tariffs than those imposed by the US, a bilateral trade agreement that reduces tariffs would increase the US's exports to India more than vice versa.

Resultantly, India's trade surplus with the US is expected to come down — a major ask of the US as it has implemented reciprocal tariffs on countries in proportion to the trade surplus.

In terms of products, India may see some gains in exports of smartphones, certain pharmaceuticals and labour-intensive sectors such as textiles and gems and jewellery.

India can expect to see more imports of liquefied natural gas, certain agriculture products and defence equipment from the US.

That said, it is important to keep in mind that even after trade agreement deals are announced, it takes a long time for them to be operationalised.

For instance, the trade deal by India and the UK, signed on May 6, 2025, would have to be ratified by both the countries and is unlikely to be implemented before 2026.

Hence, the India-US BTA, too, may take time to become operationalised.

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