

## **SBI RESEARCH**

### **COLLATERAL BENEFITS: IND-US TRADE SET TO TRANSCEND NEW BOUNDARIES**

Tariff reciprocity may turn out be more of white noise....Our estimates show overall incremental tariff levels even at 15%-20% imposed by USA would still limit the impact on exports to US only in the range of 3-3.5% which again should be negated through higher export goals, as India has diversified its exports kitty, pitched value addition, exploring alternate areas and works on new routes that transcend from Europe to USA via the Middle-East, redrawing new supply chain algorithms that foster strategic inclusivity

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While there is a lot of white noise and froth in the broader markets regarding the extent of impact of tariff on India under proposed "Fair & Reciprocal Plan" that seeks to correct (from US perspectives) longstanding imbalances in international trade and ensure fairness across the board, we understand the overall bilateral negotiations provide **a collateral benefit** to India, through fostering a conducive environment of cooperative dynamism across Defence, Energy Security, Innovations, Technology, Critical Minerals, Maritime Security, Investments and Higher Education to name a few as the largest and most vibrant democracy stands tall as a natural ally to US in the Indian Ocean from a strategic, as also economical perspective.

Also, we believe the flexibility shown by the leadership/policy makers should reduce the overall incremental tariff levels close to 15-20% and that would limit the impact on exports in the range of 3-3.5% which again should be negated through higher export goals across both manufacturing and services fronts, as India has diversified its exports kitty, pitched value addition, exploring alternate areas and works on new routes that transcend from Europe to USA via the Middle-East, redrawing new supply chain algorithms

- ❑ Both India and the U.S. have adjusted their tariff structures over the years, reflecting evolving trade policies and economic priorities.
- ❑ While U.S. tariffs on Indian exports have remained relatively stable, India's tariff adjustments appear to be more dynamic
- ❑ The U.S. tariff rate on Indian goods increased from 2.72% in 2018 to 3.91% in 2021, before slightly declining to 3.83% in 2022
- ❑ India's tariffs on U.S. imports have risen from 11.59% in 2018 to 15.30% in 2022

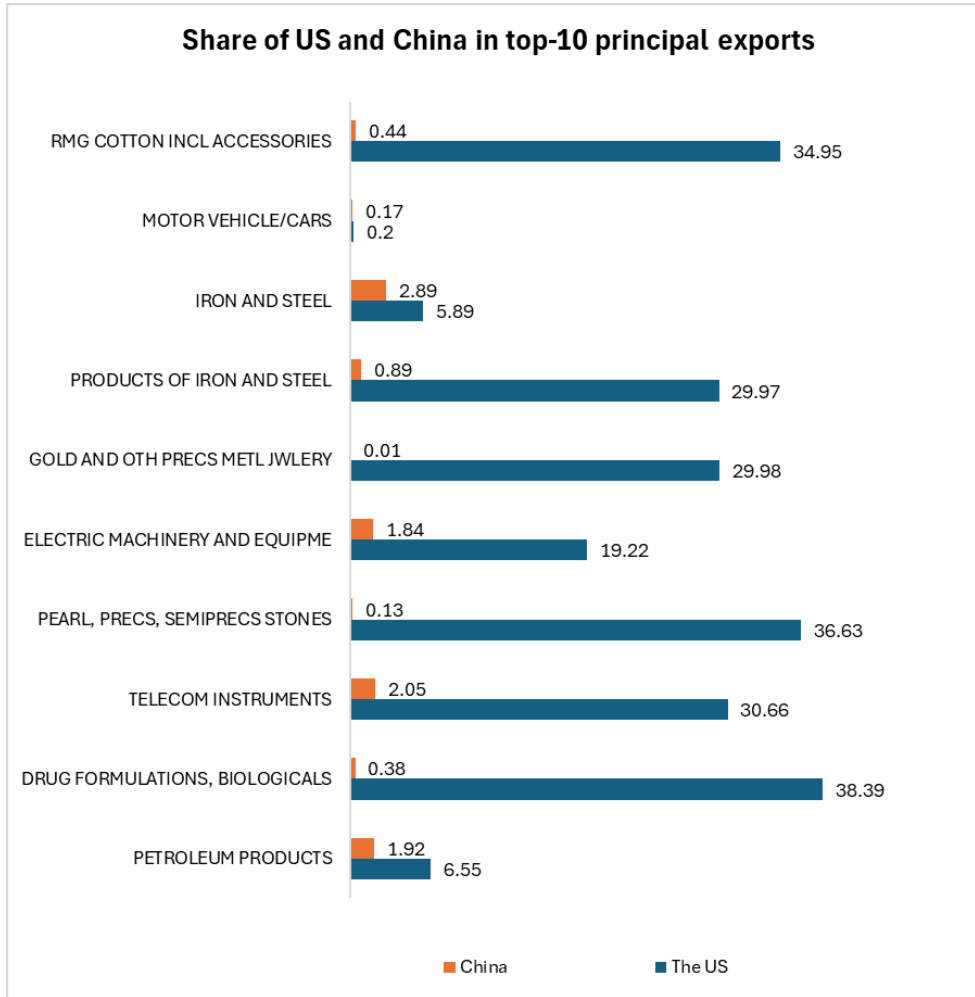
USA Tariff rates on India	
2018	2.72
2019	3.84
2020	3.83
2021	3.91
2022	3.83
India's Tariff rates on USA	
2018	11.59
2019	13.42
2020	12.22
2021	12.52
2022	15.30

# HEAT MAP OF IND-US TRADE (MONTH WISE TRADE IN GOODS in US\$ Mn)

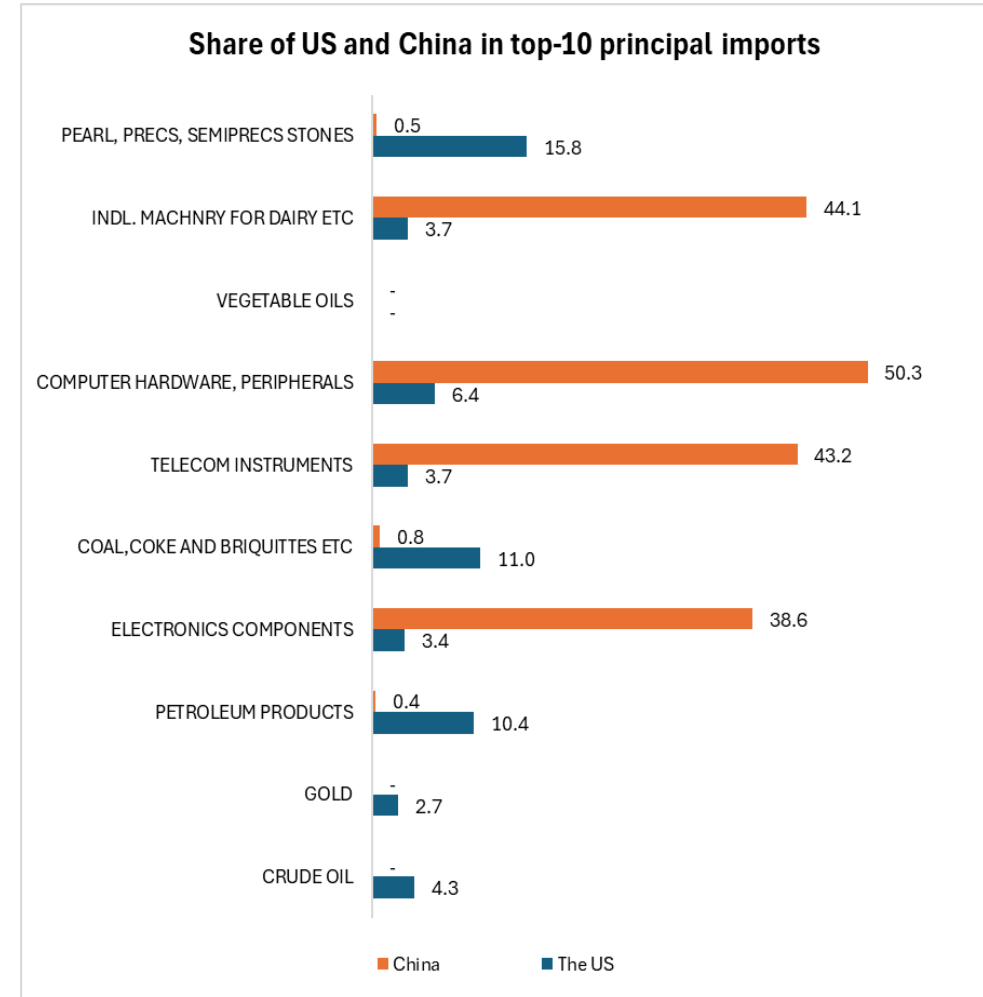
India trade surplus has increased from \$ 7bn in 2000 t \$45.7 bn in 2024.....

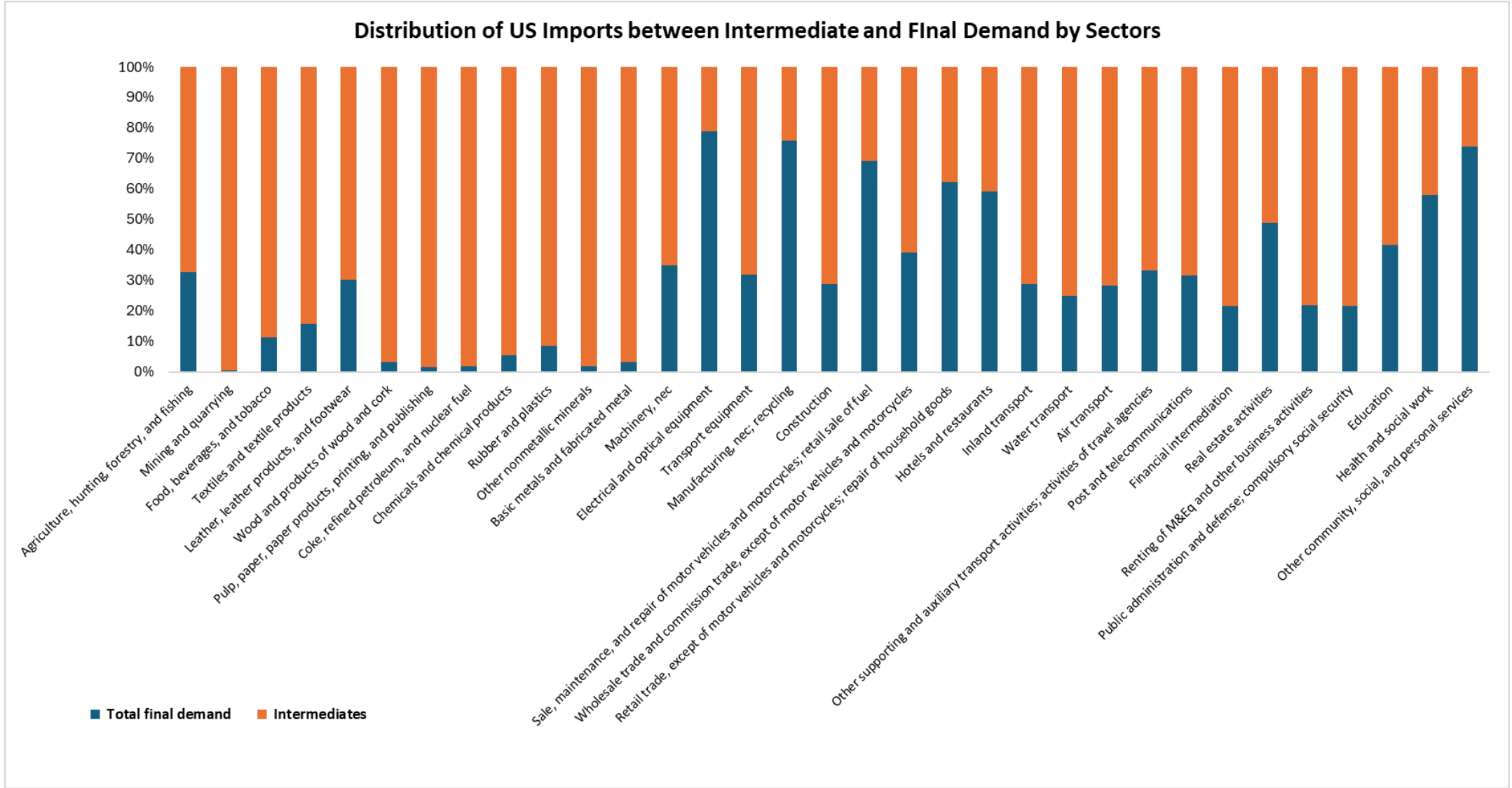
YEAR	I-JAN	US-JAN	I-FEB	US-FEB	I-MAR	US-MAR	I-APR	US-APR	I-MAY	US-MAY	I-JUN	US-JUN	I-JUL	US-JUL	I-AUG	US-AUG	I-SEP	US-SEP	I-OCT	US-OCT	I-NOV	US-NOV	I-DEC	US-DEC	IND-YR	US-YR	NET (US/IND Bn \$)
2024	6915	2853	6808	3034	7576	3961	7952	3413	8345	3668	7120	4080	6999	3315	6392	4115	7010	3344	8120	3101	6890	3763	7290	3107	87416	41753	-45.7
2023	7931	2988	6269	3008	7277	3977	6716	3255	7352	3426	6832	3333	6411	3247	6763	3813	7362	3569	7596	3466	6672	3088	6505	3205	83686	40375	-43.3
2022	6675	3892	5935	3906	7230	3858	7624	3782	8474	4076	8093	3962	7544	3809	7055	3663	7238	4346	7493	4159	6208	3963	5957	3532	85525	46948	-38.6
2021	5237	2746	4508	2860	5936	3451	5985	3025	6060	3187	5869	3392	6154	3267	6539	3449	6291	3213	7098	3821	6573	3483	7060	3923	73308	39817	-33.5
2020	4979	2780	4540	3146	4470	2601	3365	1200	2120	1366	3239	1814	4092	1835	4294	2143	4965	2254	5368	2504	4920	2658	4902	2781	51255	27082	-24.2
2019	4909	2670	4591	2673	5173	3351	5019	3186	5589	3117	4235	3215	5008	2491	4772	2584	4717	2509	5039	2666	4538	2737	4290	3024	57879	34223	-23.7
2018	4418	2200	3881	2306	4423	3010	4776	2442	5112	2622	4160	3269	4597	2538	5064	3132	4495	2939	5296	2810	4082	2654	3946	3255	54250	33177	-21.1
2017	3790	1666	3470	1933	4143	2111	3759	1992	4498	2062	4017	2339	4196	2186	4179	2492	4344	2254	4554	2225	4004	2023	3595	2365	48549	25648	-22.9
2016	3693	1486	3660	1527	3997	1835	3677	1773	4125	1586	3536	1741	3804	1632	3906	1901	4104	1888	4541	2128	3543	2061	3440	2091	46024	21647	-24.4
2015	3654	1544	3316	1616	4116	1817	4120	1946	4042	1788	3786	2315	4102	1872	3806	1875	3673	1726	3879	1830	3273	1580	3015	1545	44783	21453	-23.3
2014	3681	1565	3039	1375	3910	1716	4456	1394	4143	1737	3220	1895	3926	1858	3892	1922	4020	1923	4226	2037	3379	2133	3467	1943	45358	21499	-23.9
2013	3180	1727	2829	1561	3677	1865	4070	1657	4202	1924	3409	2365	3966	1885	3604	2068	3311	1604	3685	1734	2863	1861	3015	1558	41810	21810	-20.0
2012	3109	1351	3035	1496	3365	1757	3328	1759	3570	1769	3466	1807	4140	1775	3923	2083	3333	2243	3266	2085	3206	1749	2772	2233	40513	22106	-18.4
2011	2524	1353	2229	1441	3165	1736	3253	1877	3469	1997	3296	2112	3117	1813	3362	1848	3108	1727	3289	1720	2722	1950	2620	1968	36154	21542	-14.6
2010	2081	1297	1972	1233	2457	1450	2653	1675	2685	1841	2525	1699	2596	1815	2762	1713	2413	1459	2896	1912	2361	1543	2132	1610	29533	19249	-10.3
2009	1834	1140	1579	1047	1773	1124	1799	1269	1581	1507	1564	1398	1825	1658	1644	1678	2069	1642	1990	1503	1724	1070	1785	1407	21166	16441	-4.7
2008	2276	1047	2104	1226	2251	1446	2127	1105	2184	1444	1877	1828	2066	1824	2223	1864	2394	2031	2442	1640	1914	1204	1847	1023	25704	17682	-8.0
2007	1992	898	1698	834	2133	925	1983	773	1993	1199	1902	1061	1780	1742	2180	1597	1928	1469	2404	1630	2207	1387	1871	1454	24073	14969	-9.1
2006	1858	596	1565	692	1841	810	1683	802	1792	916	1633	741	1783	696	2100	894	1984	981	2034	860	1798	754	1759	932	21831	9674	-12.2
2005	1389	514	1342	581	1606	701	1396	620	1597	705	1420	641	1514	711	1735	704	1675	713	1929	679	1662	605	1540	746	18804	7919	-10.9
2004	1181	342	1136	389	1459	468	1247	439	1235	454	1143	534	1402	586	1350	580	1386	585	1552	605	1240	558	1240	571	15572	6109	-9.5
2003	1158	425	994	388	1104	375	1076	331	1040	420	1052	392	1112	459	1172	395	1238	429	1252	493	905	402	951	472	13055	4980	-8.1
2002	960	283	792	265	952	380	968	309	994	315	875	344	1074	289	1115	382	1066	341	1241	367	893	410	889	416	11818	4101	-7.7
2001	889	277	743	352	847	304	760	278	787	352	720	344	878	279	952	341	857	300	906	291	737	304	661	337	9737	3757	-6.0
2000	790	288	823	353	1086	372	927	258	914	277	846	246	930	241	1077	283	925	404	985	301	702	292	682	352	10687	3667	-7.0

### Share of US and China in top-10 principal exports



### Share of US and China in top-10 principal imports

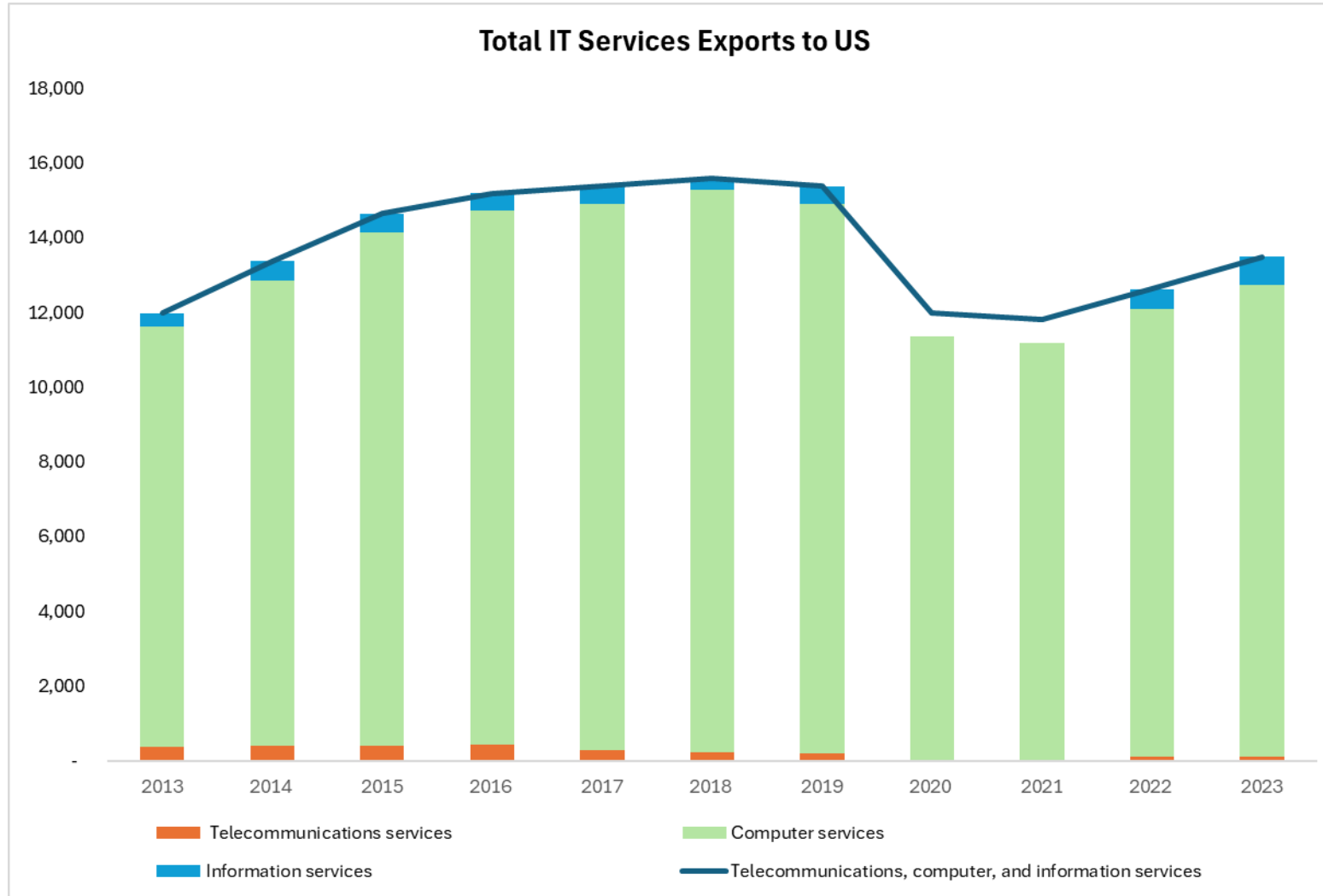




- ❑ USA is India's top export destination accounting for 17.7% share of total exports in FY24

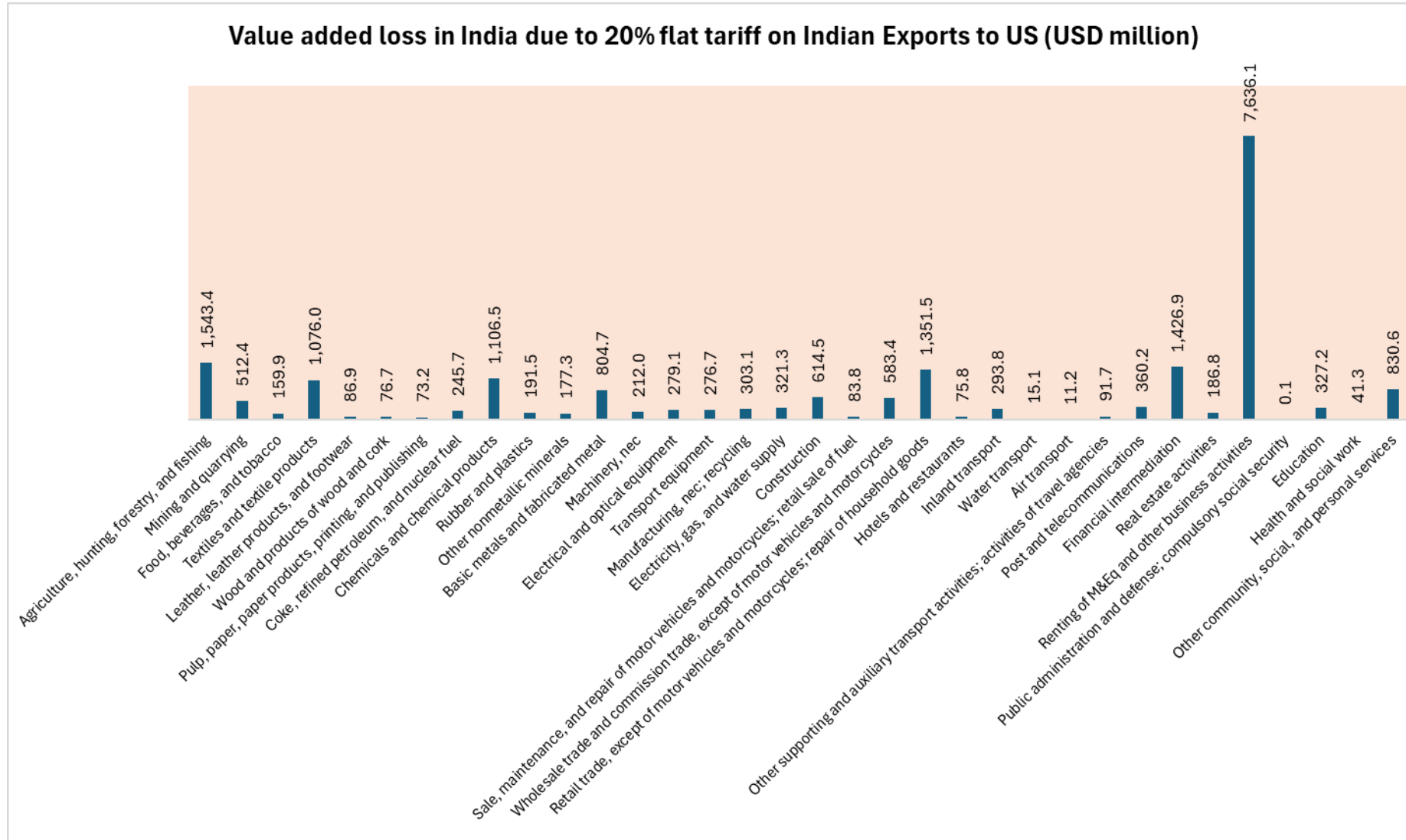
Direction of Goods exports -% share in India's total Export					
Year	2019-20	2020-21	2021-22	2022-23	2023-24
USA	16.9	17.7	18.0	17.4	17.7
UAE	9.2	5.7	6.6	7.0	8.2
SAARC	7.0	7.6	8.1	6.2	5.9
China	5.3	7.3	5.0	3.4	3.8
Singapore	2.8	3.0	2.6	2.7	3.3
UK	2.8	2.8	2.5	2.5	3.0
Latin American Countries	2.8	2.7	2.8	3.3	2.7
Saudi Arabia	2.0	2.0	2.1	2.4	2.6
Germany	2.6	2.8	2.3	2.2	2.3
Italy	1.6	1.6	1.9	1.9	2.0
South Africa	1.3	1.3	1.4	1.9	2.0
Australia	0.9	1.4	2.0	1.5	1.8
Malaysia	2.0	2.1	1.7	1.6	1.7
France	1.6	1.6	1.6	1.7	1.6
South Korea	1.5	1.6	1.9	1.5	1.5
Indonesia	1.3	1.7	2.0	2.2	1.4
Japan	1.4	1.5	1.5	1.2	1.2
Thailand	1.4	1.5	1.4	1.3	1.2
Russia	1.0	0.9	0.8	0.7	1.0
Canada	0.9	1.0	0.9	0.9	0.9
Switzerland	0.4	0.4	0.3	0.3	0.3

Source: RBI





# Simulated impact of 20% flat tariff on Indian exports to result in loss of 50 bps to GDP: A highly unlikely scenario....



- We have also estimated the likely fall in Indian exports if USA imposes a retaliatory tariff of 15% ( 3x the present aggregate) on India. This helps in capturing sensitivity of exports to tariff fluctuations
- Using export (US\$ mn) and tariff data (AHS Simple Average (%)) for FY23 and FY19, we have calculated tariff elasticity for Indian exports using the following formula

$$\eta_1 = \frac{\% \Delta \text{ Exports}}{\% \Delta \text{ Tariff Rate}}$$

- The estimated elasticity of -0.5 serves as a responsiveness parameter implying that a 1% rise in tariff leads to a 0.5 % decline in exports delineating that Indian exports are elastic to tariff rates
- Exchange rate movements, however, will impact the export dynamics. To capture the impact of exchange rate we have calculated exchange rate elasticity of India's exports using the following formula

$$\eta_2 = \frac{\% \Delta \text{ Exports}}{\% \Delta \text{ Exchange rate}}$$

- To estimate the likely impact on exports if tariff of 15% is imposed on India factoring in exchange rate movement, we have used the following formula

$$\% \Delta \text{Exports} = |\eta_1| \times \% \Delta \text{Tariff Rate} - |\eta_2| \times \% \Delta \text{Exchange rate}$$

- The Tariff rate on India for 2022 is 3.8% (which might have edged up towards ~4% in the intermittent period).. ..Using this, we have estimated that a rise to 15% may lead to ~ **3% decline** in India's exports to the U.S.A taking into account exchange rate depreciation envisaged
- However, the sector specific impact will be different with different sectors likely to be affected differentially based on their respective elasticities
- Also, the exchange rate depreciation needs to be tweaked since many of the Indian exporters are using the advance payments / FCNR(B) loans / PCFC as also proceeds received from other obligations and deposited in EEFC accounts to cushion from exchange rate impact... clearly, one would need to wait till April to gauge the full extent of impacts

### “U.S.-India COMPACT (Catalyzing Opportunities for Military Partnership, Accelerated Commerce & Technology) for the 21st Century”

- ❑ India and US plans to sign this year a new ten-year Framework for the U.S.-India Major Defense Partnership in the 21st Century. U.S. to expand defense sales and co-production with India to strengthen interoperability and defense industrial cooperation
- ❑ Significant integration of U.S.-origin defence items into India’s inventory to date, including C-130J Super Hercules, C-17 Globemaster III, P-8I Poseidon aircraft; CH-47F Chinooks, MH-60R Seahawks, and AH-64E Apaches; Harpoon anti-ship missiles; M777 howitzers; and MQ-9Bs. India plans to pursue this year new procurements and co-production arrangements for “Javelin” Anti-Tank Guided Missiles and “Stryker” Infantry Combat Vehicles in India
- ❑ India, being a Major Defense Partner with Strategic Trade Authorization-1 (STA-1) authorization and a key QUAD partner, the U.S. and India to review their respective arms transfer regulations, including International Traffic in Arms Regulations (ITAR), in order to streamline defense trade, technology exchange and maintenance
- ❑ Negotiations expected to initiate this year for a Reciprocal Defense Procurement (RDP) agreement to better align the two countries’ procurement systems and enable the reciprocal supply of defense goods and services as the two democracies has pledged to accelerate defense technology cooperation across space, air defense, missile, maritime and undersea technologies, with the U.S. announcing a review of its policy on releasing fifth generation fighters and undersea systems to India

### “U.S.-India COMPACT (Catalyzing Opportunities for Military Partnership, Accelerated Commerce & Technology) for the 21st Century”

- ❑ Building on the U.S.-India Roadmap for Defense Industrial Cooperation and recognizing the rising importance of autonomous systems, a new initiative announced – the Autonomous Systems Industry Alliance (ASIA) – to scale industry partnerships and production in the Indo-Pacific (*Partnership between Anduril Industries and Mahindra Group on advanced autonomous technologies to co-develop and co-produce state-of-the-art maritime systems and advanced AI-enabled counter Unmanned Aerial System (UAS) to strengthen regional security, and between L3 Harris and Bharat Electronics for co-development of active towed array systems*)
- ❑ Commitment to break new ground to support and sustain the overseas deployments of the U.S. and Indian militaries in the Indo-Pacific, including enhanced logistics and intelligence sharing, as well as arrangements to improve force mobility for joint humanitarian and disaster relief operations

- ❑ Both countries to expand trade and investment to make citizens more prosperous, nations stronger, economies more innovative and supply chains more resilient..... – “Mission 500” – **aiming to more than double total bilateral trade to \$500 billion by 2030**
- ❑ Plans to negotiate the first tranche of a mutually beneficial, multi-sector Bilateral Trade Agreement (BTA) by fall of 2025 to find & fix new, fair-trade terms to cater to ambitious aspirations, aligned with objectives of the COMPACT.... Both nations to take an integrated approach to strengthen and deepen bilateral trade across the goods and services sector, working towards increasing market access, reducing tariff and non-tariff barriers, and deepening supply chain integration
- ❑ Vindicating early steps to demonstrate mutual commitment to address bilateral trade barriers....India’s recent measures to lower tariffs on U.S. products of interest in the areas of bourbon, motorcycles, ICT products and metals, as well as measures to enhance market access for U.S. agricultural products (alfalfa hay/duck meat), and medical devices are hailed.... U.S. measures taken to enhance exports of Indian mangoes and pomegranates to the United States also appreciated
- ❑ The two countries remain committed to drive opportunities for U.S. and Indian companies to make greenfield investments in high-value industries in each other’s countries (*Ongoing investments by Indian companies worth approximately \$7.35 billion, such as those by Hindalco’s Novelis in finished aluminum goods at their state-of-the art facilities in Alabama and Kentucky; JSW in steel manufacturing operations at Texas and Ohio; Epsilon Advanced Materials in the manufacture of critical battery materials in North Carolina; and Jubilant Pharma in the manufacture of injectables in Washington that have supported ~3,000 jobs*).

- ❑ Importance of U.S.-India collaboration to ensure energy security- energy affordability, reliability, and availability and stable energy markets.... recommitment to U.S.-India Energy Security Partnership, including in oil, gas, and civil nuclear energy, realizing their role, as leading producers and consumers, in driving the global energy landscape
- ❑ Importance of enhancing the production of hydrocarbons to ensure better global energy prices and secure affordable and reliable energy access for citizens highlighted.... Underscoring the value of strategic petroleum reserves to preserve economic stability during crises and resolution to work with key partners to expand strategic oil reserve arrangements as USA affirms firm support for India to join the IEA (International Energy Agency) as a full member
- ❑ Commitment to increase energy trade, as part of efforts to ensure energy security, and to establish the USA as a leading supplier of crude oil and petroleum products and liquified natural gas to India.....harnessing scope and opportunity to increase trade in the hydrocarbon sector including natural gas, ethane and petroleum products as part of efforts to ensure supply diversification and energy security
- ❑ Commitment to fully realize the U.S.-India 123 Civil Nuclear Agreement by moving forward with plans to work together to build U.S.-designed nuclear reactors in India through large scale localization and possible technology transfer, as outlined in recent Indian budget to amend the Atomic Energy Act and the Civil Liability for Nuclear Damage Act (CLNDA) for nuclear reactors and facilitate the collaboration of Indian and U.S. industry in the production and deployment of nuclear reactors

- ❑ Launch of the **U.S.-India TRUST** (“Transforming the Relationship Utilizing Strategic Technology”) initiative, which will catalyze **government-to-government, academia and private sector collaboration to promote application of critical and emerging technologies** in areas like defense, artificial intelligence, semiconductors, quantum, biotechnology, energy and space
- ❑ Launch of **INDUS** Innovation, a new innovation bridge modeled after the successful INDUS-X platform, that will advance U.S.-India industry and academic partnerships and foster investments in space, energy, and other emerging technologies to maintain U.S. and India leadership in innovation and to meet the needs of the 21st century....also reinforcing commitment to the INDUS-X
- ❑ Commitment, as part of the TRUST initiative, to build trusted and resilient supply chains, including for semiconductors, critical minerals, advanced materials and pharmaceuticals, encouraging public and private investments to expand Indian manufacturing capacity, including in the U.S., for active pharmaceutical ingredients for critical medicines
- ❑ Recognizing the strategic importance of critical minerals for emerging technologies and advanced manufacturing, both the countries to accelerate collaboration in research and development and promote investment across the entire critical mineral value chain, as well as through the Mineral Security Partnership, of which both the United States and India are members as both countries commit to intensifying efforts to deepen cooperation in the exploration, beneficiation, and processing as well as recycling technologies of critical minerals under newly launched Strategic Mineral Recovery initiative, a new U.S.-India program to recover and process critical minerals (including lithium, cobalt, and rare earths) from heavy industries like aluminum, coal mining and oil and gas



- ❑ Plans under US-India civil space cooperation for a **NASA-ISRO** effort through AXIOM to bring the first Indian astronaut to the International Space Station (ISS), and early launch of the joint “NISAR” mission, the first of its kind to systematically map changes to the Earth’s surface as also further commercial space collaboration through industry engagements in conventional and emerging areas, such as connectivity, advanced spaceflight, satellite and space launch systems, space sustainability, space tourism and advanced space manufacturing
- ❑ Deepening ties between the U.S. and Indian scientific research communities through **a new partnership between the U.S. National Science Foundation and the Indian Anusandhan National Research Foundation** in researching critical and emerging technologies that proposes to build on ongoing collaboration between the U.S. National Science Foundation and several Indian science agencies to enable joint research in the areas of semiconductors, connected vehicles, machine learning, next-generation telecommunications, intelligent transportation systems, and future biomanufacturing
- ❑ Commitment to redouble efforts to address export controls, enhance high technology commerce, and reduce barriers to technology transfer between the two countries, while addressing technology security while also working together to counter the common challenge of unfair practices in export controls
- ❑ There are plans afoot to establish an International Trade Route from India to the U.S. – Passing Through Israel... this new international trade route from India to the West, is slated to pass through the UAE, Saudi Arabia, Jordan, Israel, and Italy, before reaching the U.S. (The trade route serves as a countermeasure to China’s “Belt and Road Initiative.”), transcending new possibilities in the exchange of capital and goods in the extended region as detailed ahead

- ❑ Both the countries to increase cooperation, enhance diplomatic consultations, and increase tangible collaboration with partners in the Middle East, underpinning the importance of investing in critical infrastructure and economic corridors to advancing peace and security in the region.....Plans to convene partners from the **India-Middle East-Europe Corridor** and the **I2U2 Group** within the next six months in order to announce new initiatives in 2025
- ❑ Launch of the **Indian Ocean Strategic Venture**, a new bilateral, whole-of-government forum to advance coordinated investments in economic connectivity and commerce, given India's strategic position as a net security provider in the Indian Ocean region.... Supporting greater Indian Ocean connectivity, even as **Meta** (Facebook parent) has announced of a multi-billion, multi-year investment in an undersea cable project that will begin work this year and ultimately stretch over 50,000 km to connect five continents and strengthen global digital highways in the Indian Ocean region and beyond
- ❑ Both the nations recognize the **need to build new plurilateral anchor partnerships** in the Western Indian Ocean, Middle East, and Indo-Pacific to grow relationships, commerce and cooperation across defense, technology, energy and critical minerals
- ❑ Both countries aspire to strengthen **collaborations between the higher education institutions** through efforts such as joint/dual degree and twinning programs, establishing joint Centers of Excellence, and setting up of offshore campuses of premier US educational institutions
- ❑ The evolution of the world into a global workplace calls for putting in place innovative, mutually advantageous and secure mobility frameworks. In this regard, both the nations have committed to streamlining avenues for legal mobility of students and professionals, and facilitating short-term tourist and business travel, while also aggressively addressing illegal immigration and human trafficking



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