



SBI RESEARCH

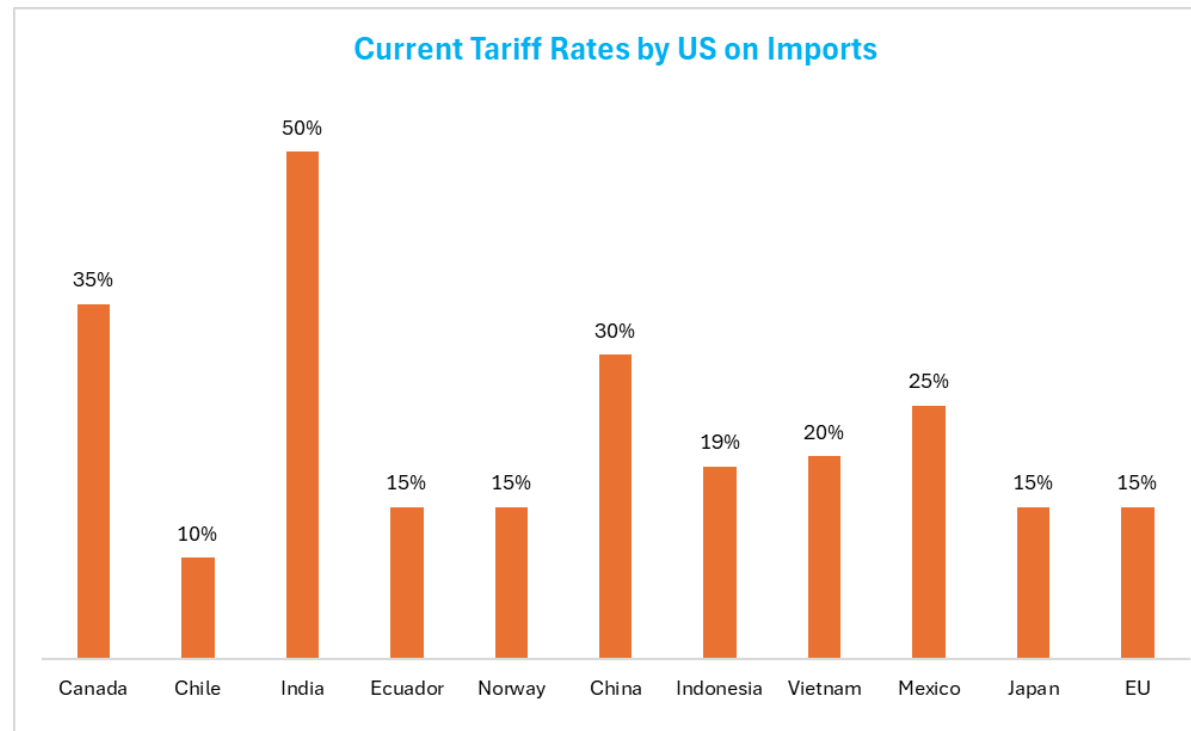
TARIFF DIPLOMACY: NEGOTIATION SHOULD HOLD THE KEY

50% tariff comes into force from Aug 27th

Issue # 23, FY26 Date: 26-August-2025

- ❑ In repose to the US President's Executive Order 14329 of August 6, 2025, US notified the duties set out to products of India that are entered for consumption or withdrawn from warehouse for consumption on or after 12:01 a.m. eastern daylight time on August 27, 2025
- ❑ Tariffs on ~ \$45 billion worth of Indian exports has been imposed. Sectors such as textiles and gems and jewelry – both labour-intensive industries – are expected to face moderate pressures. However, pharmaceuticals, and smartphones and steel are relatively insulated due to exemptions, existing tariff structures and strong domestic consumption
- ❑ As \$45 billion of export will be impacted due to 50% tariffs, then at worst scenario India's trade surplus will convert to trade deficit...however, we believe trade negotiations will restore confidence and improve export to US
- ❑ **Amid higher tariffs, India's products might lose competitiveness potentially benefitting countries like China and Vietnam, as tariff imposed on India is also higher than that on other Asian countries such as China (30%), Vietnam (20%), Indonesia (19%), and Japan (15%). The US remains India's largest export destination for textiles. Over the past five years, India has steadily gained market share in textiles while China's share has fallen significantly. This shift highlights India's growing importance of India in US supply-chain arrangements**
- ❑ **The US remains the largest market for Gems and Jewellery sector, accounting for nearly a third of the sector's \$28.5 billion annual shipments. With US tariffs rising from 25% to 50%, exporters are bracing for significant disruption**
- ❑ Shrimp exporters, who send more than half their output to the US, fear steep losses and order cancellations as the higher tariff comes into effect. This also impact the prices for US consumers and making India less competitive against rivals like Ecuador
- ❑ **We believe that US tariffs is likely to affect US GDP by 40-50 bps and higher input cost inflation**

- ❑ In response to the US President's Executive Order 14329 of August 6, 2025, US notified the duties set out to products of India that are entered for consumption or withdrawn from warehouse for consumption on or after 12:01 a.m. eastern daylight time on August 27, 2025
- ❑ Amid higher tariffs, India's products will lose competitiveness and potentially benefitting countries like China and Vietnam, as tariff imposed on India is also higher than that on other Asian countries such as China (30%), Vietnam (20%), Indonesia (19%), and Japan (15%)



US 50% tariffs to hit ~ \$45 billion worth of India's major exports to US

- There will be 50% tariffs on ~ \$45 billion worth of major Indian exports. Sectors such as textiles and gems and jewelry – both labour-intensive industries – are expected to face moderate pressures. However, pharmaceuticals, and smartphones and steel are relatively insulated due to exemptions, existing tariff structures and strong domestic consumption

India's Major export items in FY25						
Commodities	India's Exports to US \$ bn	Share in total US export	Share of US export in India's total export to world %	MFN Tariff	Tariff effective from 27th Aug 25	Impact
Sea food	2	2.4	32.4	8.56	58.56	High
Organinic chemicals	3	3.1	13.2	4.00	54.00	High
Furniture accessories	1	1.4	58.6	2.90	52.90	High
KnittedApparels	3	3.1	34.5	13.90	63.90	High
Non -knittedApparels	3	3.1	32.2	10.30	60.30	High
Textiles	3	3.4	48.4	9.00	59.00	High
Gems and Jewellery	10	11.5	33.3	3.20	53.20	High
Steel, Aluminium and copper	5	5.4	16.6	1.70	51.70	High
Machinery parts	7	7.7	20.0	1.30	51.30	High
Auto and auto components	3	3.0	11.4	1.00	26.00	Medium
Bedding and mattress	1	1.3	44.8	2.30	52.30	High
Smart phones	11	12.3	43.9	-	-	low
Pharmaceuticals	10	11.3	39.8	-	-	low
Refined petrolium products	4	4.9	6.3	3.85	3.85	low

- ❑ India's trade surplus with US was \$41 bn in FY25
- ❑ As \$45 billion of export will be impacted due to 50% tariffs, then at worst scenario India's trade surplus will convert to trade deficit...however, we believe trade negotiations will restore confidence and improve export to US

India US trade Summary (\$ bn)						
	FY21	FY22	FY23	FY24	FY25	FY26(Q 1 FY26)
EXPORT	52	76	79	78	87	26
Import	29	43	51	42	46	13
TRADE BALANCE	23	33	28	35	41	13

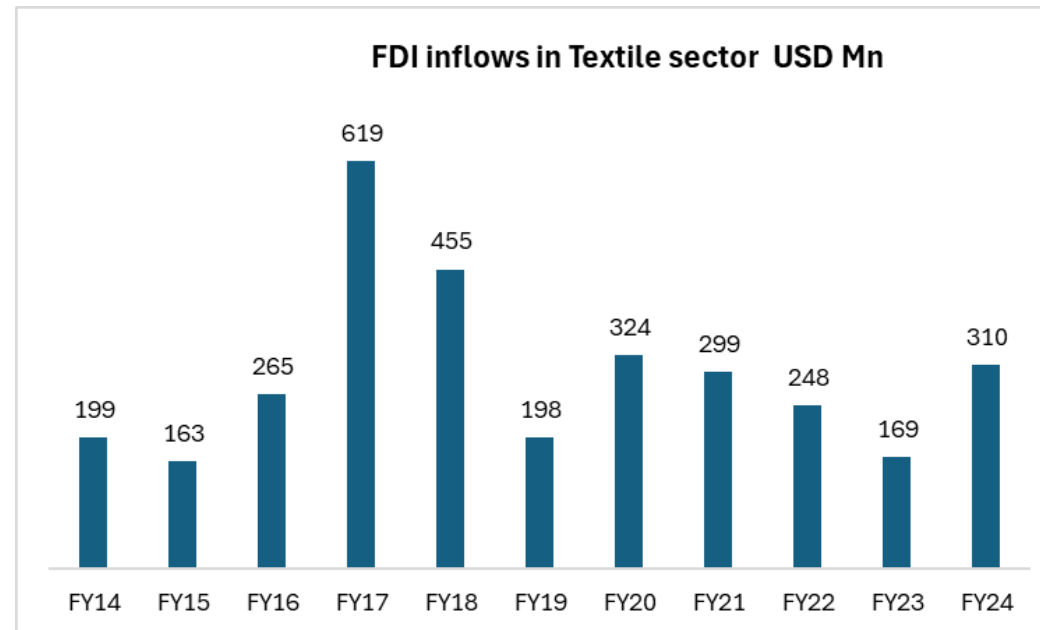
- ❑ The US remains India's largest export destination for textiles. India is the third-largest exporter to the country after China and Vietnam
- ❑ **Over the past five years, India has steadily gained market share, in all 3-textile categories, while China's share has fallen significantly. This shift highlights India's growing importance of India in US supply-chain arrangements**
- ❑ **Amid higher tariffs, India's products will lose competitiveness and potentially benefitting countries like China and Vietnam, as tariff imposed on India is also higher than that on other Asian countries such as China (30%), Vietnam (20%), Indonesia (19%), and Japan (15%)**

US imports_ Top 10 country wise share in Textiles_Knitted						
	2020	2021	2022	2023	2024	Current Tariff Rate
China	24.17	24.55	21.95	21.79	22.03	30%
Vietnam	19.44	17.39	17.98	17.46	18.03	20%
Cambodia	5.76	5.26	5.47	5.40	5.94	19%
Bangladesh	4.40	5.22	5.46	5.30	5.50	20%
India	4.02	4.48	4.76	4.75	5.09	50%
Indonesia	5.09	4.81	5.16	4.84	4.87	19%
Honduras	4.22	4.67	4.91	4.85	4.37	10%
Nicaragua	2.75	3.02	4.00	3.46	3.60	18%
Guatemala	2.87	3.01	2.97	3.11	3.19	-
Jordan	3.04	2.79	2.74	3.04	3.15	20%

US imports_ Top 10 country wise share in Textiles_non-Knitted						
	2020	2021	2022	2023	2024	Current Tariff Rate
China	30.71	25.03	22.18	21.17	20.98	30%
Vietnam	17.63	17.04	17.98	18.19	18.85	20%
Bangladesh	10.94	12.91	14.45	13.20	13.05	20%
India	5.01	6.06	7.00	6.97	6.90	50%
Indonesia	5.25	5.38	6.26	5.99	5.92	19%
Mexico	5.05	5.77	5.01	5.39	5.11	25%
Italy	2.39	2.91	3.16	4.21	4.04	15%
Cambodia	2.63	2.76	2.99	2.93	3.34	19%
Pakistan	1.93	2.72	2.69	2.60	2.86	19%
Sri Lanka	1.97	2.17	2.09	1.98	2.03	20%

US imports_ Top 10 country wise share in Made up textiles						
	2020	2021	2022	2023	2024	Current Tariff Rate
China	71.69	54.04	53.11	50.54	50.94	30%
India	8.02	17.24	16.37	17.47	17.30	50%
Pakistan	4.38	8.29	8.86	9.13	8.66	19%
Mexico	3.96	5.98	6.26	7.67	7.80	25%
Vietnam	3.00	2.22	2.33	2.24	2.68	20%
Turkey	0.87	1.73	1.77	1.61	1.46	15%
Bangladesh	0.80	1.50	1.62	1.22	1.04	20%
Portugal	0.45	0.98	0.94	0.88	0.88	10%
Taiwan	0.53	0.84	0.98	0.85	0.82	20%
Cambodia	0.24	0.60	0.66	0.68	0.79	19%

- ❑ The textile and apparel industry contributes 2.3% to our GDP, 13% to industrial production, and 12% to exports
- ❑ It is also the second largest employment generators, after agriculture, with over 45 million people employed directly, including many women and the rural population
- ❑ As further evidence of the inclusive nature of this industry, nearly 80% of its capacity is spread across Micro, Small and Medium Enterprises (MSME) clusters in the country
- ❑ The sector also has perfect alignment with the Government's overall objectives of Make in India, Skill India, Women's Empowerment, Rural Youth Employment and inclusive growth
- ❑ **The industry produces about 22,000 million pieces of garments per year, with the market size projected to reach US\$ 350 billion by 2030, from the current \$174 billion**



- ❑ The Gems and Jewellery sector (\$10 billion, with 40% US market) faces 50% tariff, which may benefit countries like Switzerland where tariff is only 39%
- ❑ **The US remains the largest market, accounting for nearly a third of the sector's \$28.5 billion annual shipments. With US tariffs rising from 25% to 50%, exporters are bracing for significant disruption**

US imports_ Top 10 country wise share in Gems and jewellery						
	2020	2021	2022	2023	2024	Current Tariff Rate
Switzerland	29.35	11.84	12.16	9.10	16.79	39%
India	7.94	16.36	16.54	13.61	13.00	50%
Canada	7.52	8.59	7.75	14.75	11.30	35%
South Africa	7.22	10.74	8.57	8.70	9.60	30%
Mexico	5.32	6.25	5.40	6.21	6.56	25%
Israel	3.29	5.55	6.89	6.46	4.84	15%
Australia	4.71	2.33	3.39	3.74	3.60	10%
Italy	1.60	3.14	2.80	3.05	2.67	15%
Hong Kong	5.11	1.21	1.33	1.24	2.60	30%
Belgium	1.97	3.44	4.44	3.37	2.55	15%

- ❑ Shrimp exporters, who send more than half their output to the US, fear steep losses and order cancellations as the higher tariff comes into effect
- ❑ This also impact the prices for US consumers and making India less competitive against rivals like Ecuador

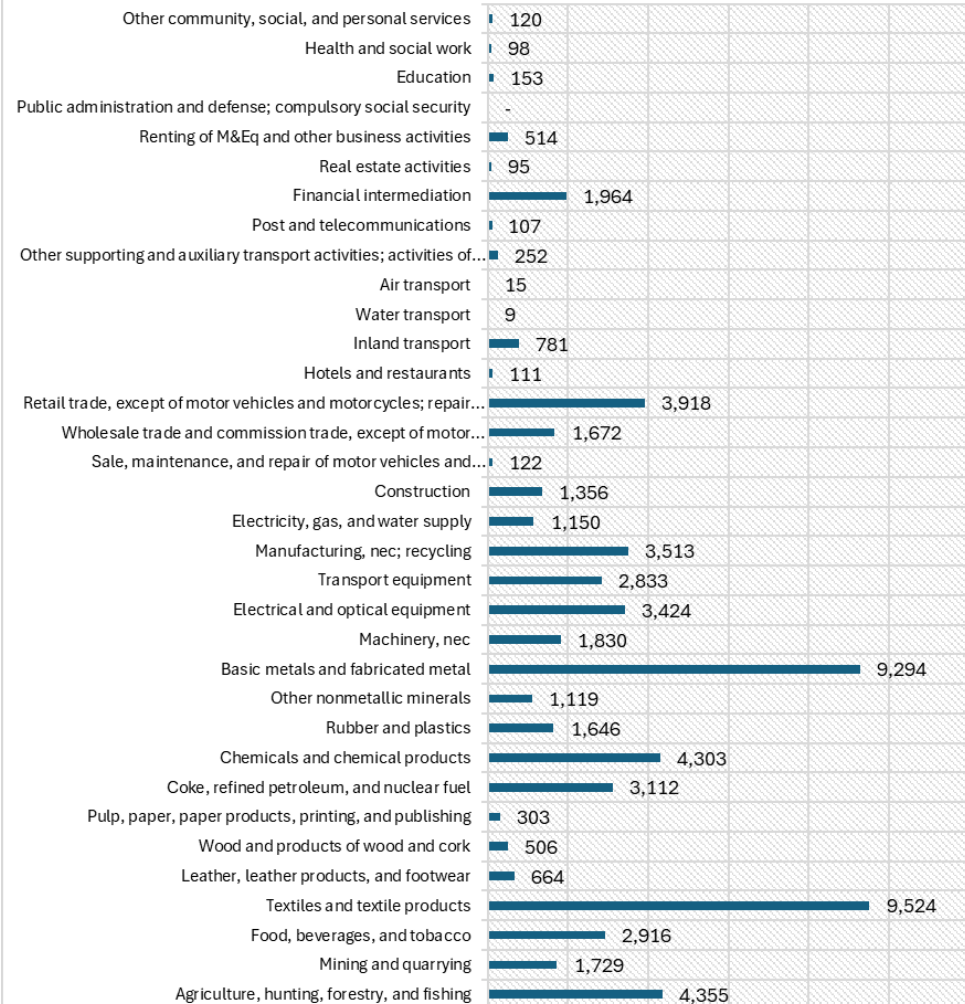
US imports_Top 10 country wise share in Sea food						
	2020	2021	2022	2023	2024	Current Tariff Rate
Canada	16.0	18.9	15.3	15.6	17.0	35%
Chile	12.1	11.9	13.6	15.8	14.4	10%
India	12.2	11.8	9.8	9.8	9.7	50%
Ecuador	5.1	6.5	6.8	7.3	7.2	15%
Norway	4.8	4.7	5.6	7.0	6.5	15%
China	8.3	6.0	6.7	6.3	6.3	30%
Indonesia	7.8	6.3	6.4	5.9	5.5	19%
Vietnam	4.4	5.0	6.1	4.5	5.0	20%
Mexico	3.1	2.7	2.7	2.6	2.3	25%
Japan	1.0	1.3	1.9	2.0	2.1	15%

- US has exempted Pharma imports from India...~40% of India's pharma exports goes to the USA (FY25), India's share in US's total pharma imports is 6% (in 2024)...

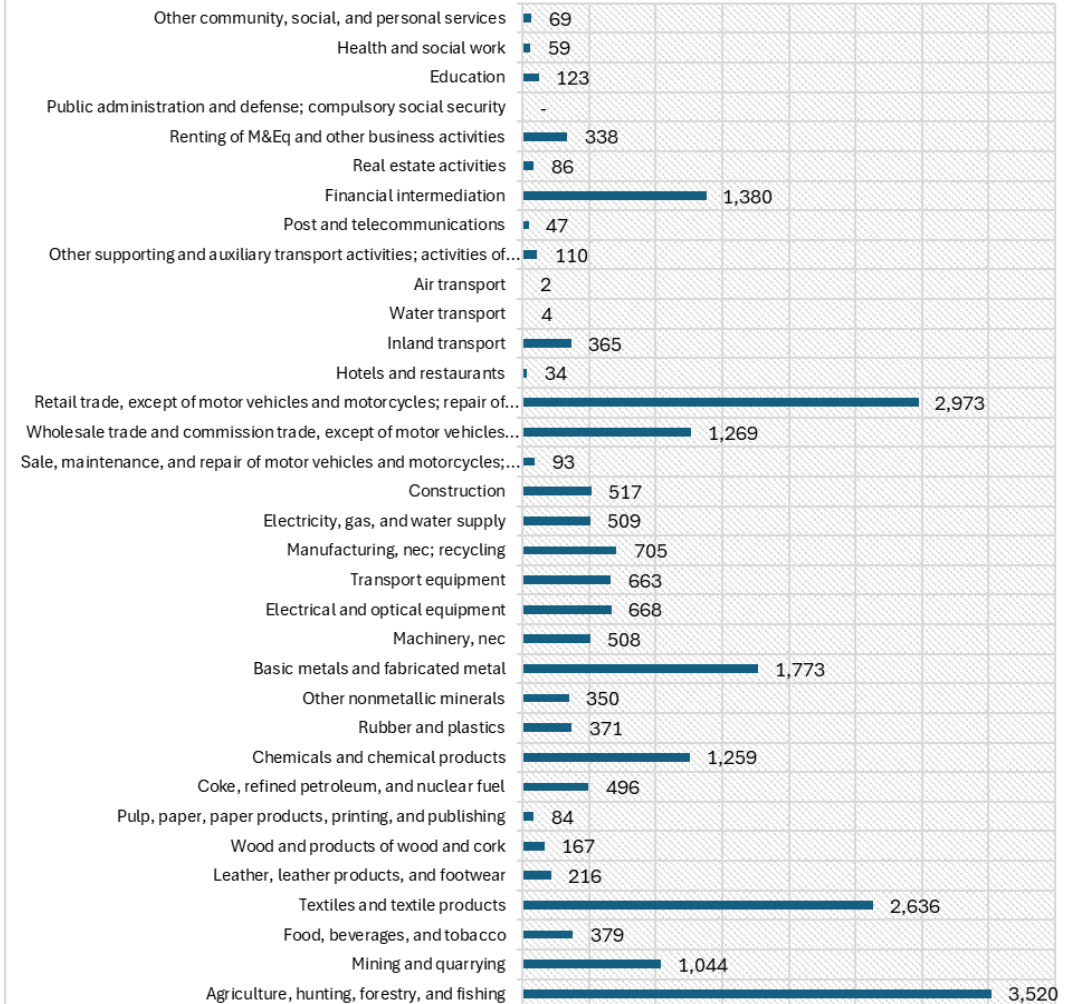
india's Top 10 Pharma Export Countries					
Country	Export \$ Mn		Share		CAGR (%)
	FY22	FY25	FY22	FY25	
US	6472	9,784	33.4%	39.8%	14.8
UK	615	781	3.2%	3.2%	8.3
South Africa	550	637	2.8%	2.6%	5.0
France	413	586	2.1%	2.4%	12.3
Canada	355	540	1.8%	2.2%	15.0
Brazil	375	520	1.9%	2.1%	11.6
Nigeria	509	468	2.6%	1.9%	-2.8
Australia	358	433	1.8%	1.8%	6.6
Netherland	327	423	1.7%	1.7%	9.0
Russia	480	421	2.5%	1.7%	-4.2
Total Pharma Exports	19396	24577	100.0%	100.0%	8.2
Source: SBI Research					

US's Top 10 Pharma Import Countries					
Country	Imports (\$ Mn)		Share		CAGR (%)
	2021	2024	2021	2024	
Ireland	28821	50165	19.4%	23.7%	20.3
Switzerland	21066	18858	14.2%	8.9%	-3.6
Germany	22021	17164	14.8%	8.1%	-8.0
Singapore	5738	15253	3.9%	7.2%	38.5
India	8908	12471	6.0%	5.9%	11.9
Belgium	7208	12298	4.8%	5.8%	19.5
Italy	5702	11532	3.8%	5.4%	26.5
China	3344	7825	2.2%	3.7%	32.8
Japan	5972	7476	4.0%	3.5%	7.8
UK	6070	7269	4.1%	3.4%	6.2
US Total Pharma Imports	148731	211798	100.0%	100.0%	12.5
Source: SBI Research					

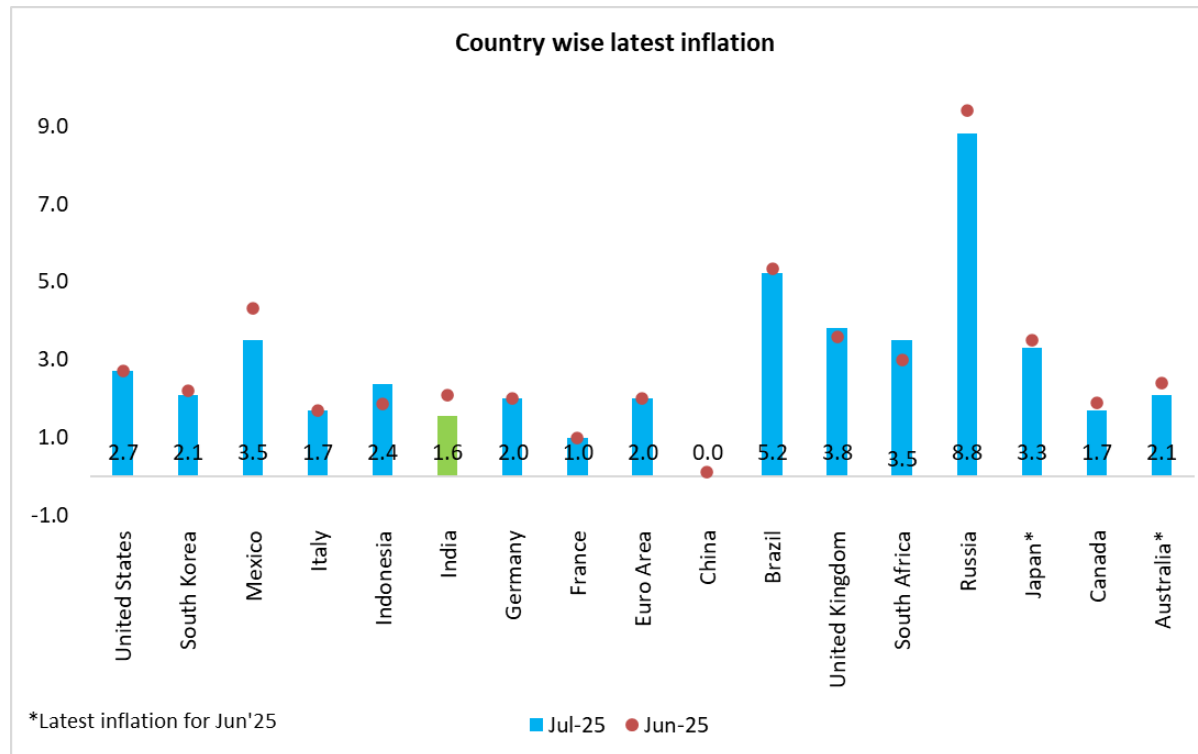
Output loss at 50% tariff (USD Mio)

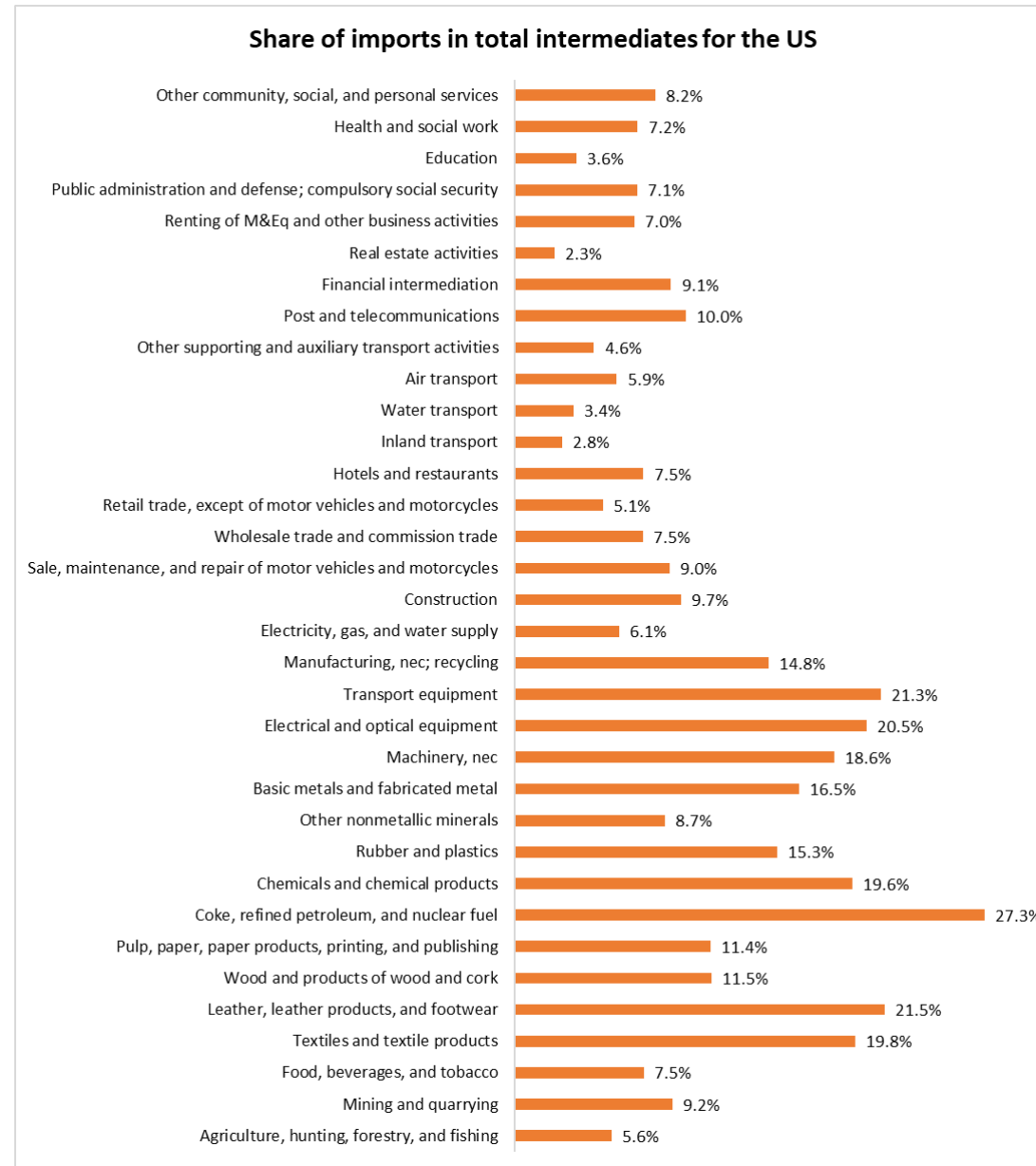


Value add loss at 50% tariff (USD Mio)



- ❑ The U.S. is beginning to show signs of renewed inflationary pressure, driven by the pass-through effects of recent tariffs and a weaker dollar—particularly in import-sensitive sectors such as electronics, autos, and consumer durables (WEO,Jul'25)
- ❑ U.S. inflation is expected to stay above the 2 percent target through 2026, driven by supply-side effects of tariffs and exchange rate movements





**Disclaimer:**


This Report is not a priced publication of the Bank. The opinion expressed is of Research Team and not necessarily reflect those of the Bank or its subsidiaries. The contents can be reproduced with proper acknowledgement. The write-up on Economic & Financial Developments is based on information & data procured from various sources and no responsibility is accepted for the accuracy of facts and figures. The Bank or the Research Team assumes no liability if any person or entity relies on views, opinion or facts & figures finding in this Report.

Contact Details:**Dr. Soumya Kanti Ghosh**

Group Chief Economic Adviser
State Bank of India, Corporate Centre
Nariman Point, Mumbai - 400021

Email: soumya.ghosh@sbi.co.in
gcea.erd@sbi.co.in

Phone: 022-22742440

 :@kantisoumya