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India's Trade Calculus After America's 'Liberation Day' Tariffs

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CURATED & WRITTEN BY

**Bharat Choudhary**

UPSC Educator & Content Creator

[linkedin.com/in/epicbharat](https://www.linkedin.com/in/epicbharat)

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INTERVIEW ANGLE

"Should India respond to US tariffs with retaliatory measures or use this as an opportunity to accelerate domestic manufacturing and seek a bilateral FTA?"

WHY IN NEWS

On April 2, 2026 — dubbed “Liberation Day” by the Trump administration — the United States announced sweeping reciprocal tariffs on imports from all countries. India faces a 27% reciprocal tariff, threatening exports worth over \$80 billion annually.

THE EDITORIAL ARGUMENT

The US “Liberation Day” tariffs represent the most significant disruption to global trade architecture since the 2018-19 trade war. For India, the 27% tariff on goods exported to the US is a strategic inflection point — but not necessarily a disaster if New Delhi responds with strategic clarity rather than reactive panic.

BACKGROUND: WHAT HAPPENED ON LIBERATION DAY

On April 2, 2026, President Donald Trump signed an executive order imposing “reciprocal tariffs” based on a formula that effectively assigned each country a tariff rate equal to half of the trade deficit the US runs with that country, divided by that country’s exports to the US. India’s rate of 27% reflects the significant trade surplus India runs with the United States.

The tariffs affect India’s most competitive export sectors:

- **Pharmaceuticals:** India supplies ~47% of generic medicines to the US (valued at ~\$8 billion). Pharma was initially exempted but faces future inclusion
- **IT services and software:** Services exports are not directly affected (tariffs apply to goods), but sentiment and contract uncertainty are immediate concerns



- **Textiles and garments:** Already facing duty headwinds; 27% tariff compounds competition with Vietnam and Bangladesh
- **Engineering goods:** Auto components, machinery parts facing immediate duty disadvantage

INDIA'S STRUCTURAL POSITION

India's trade relationship with the United States is asymmetric:

- India exported approximately **\$87 billion** to the US in FY 2025 (India's largest export destination)
- The US exported approximately **\$42 billion** to India — a trade surplus of roughly \$45 billion in India's favour
- Services trade (IT, business process, financial) runs a surplus for India of another \$20+ billion

The Trump administration's tariff formula effectively penalises India for being a competitive goods exporter while ignoring services, where the US runs a significant deficit.

STRATEGIC OPTIONS FOR INDIA

Option 1: Negotiate a Bilateral Trade Agreement (BTA)

The US has signalled that bilateral trade deals could result in tariff reductions. India has been cautious about comprehensive FTAs (its withdrawal from RCEP in 2019 reflects this), but a targeted BTA focused on strategic goods — defence, energy, semiconductors — could provide tariff relief while managing sensitivities.

Risk: Opening India's agricultural market (US's biggest ask) would face fierce domestic political opposition.

Option 2: Selective Concessions + Reciprocal Leverage

India can offer concessions on US exports (LNG, aircraft, defence equipment) in exchange for pharma and IT tariff relief. India's large import appetite (especially for US weapons under FMS) is genuine leverage.

Option 3: Accelerate Domestic Manufacturing

If US markets become more expensive to access, India can redirect production toward faster-growing markets in Southeast Asia, Africa, and ASEAN. The PLI schemes already target this diversification.

Option 4: WTO Dispute Route

India can challenge the tariffs at the WTO Dispute Settlement Body as inconsistent with GATT Article I (MFN) and Article II (tariff schedule commitments). However, the US has effectively paralysed the WTO Appellate Body — dispute resolution would take years with no immediate relief.



THE PHARMA QUESTION: INDIA'S ACHILLES HEEL

The most sensitive sector is pharmaceuticals. The US FDA has approved thousands of Indian generic manufacturers, and disruption here would:

- Raise US healthcare costs significantly (Indians supply ~47% of US generic prescriptions)
- Hurt Indian pharma companies with US-heavy revenue mix (Sun Pharma, Dr. Reddy's, Cipla, Lupin)
- Potentially push US regulators to support domestic API manufacturing as a strategic goal

This mutual dependency is India's strongest negotiating card.

UPSC RELEVANCE

GS Paper 2 — International Relations

- India-US trade relationship and bilateral tensions
- WTO Dispute Settlement mechanism and its limitations
- India's FTA strategy: RCEP withdrawal, UAE/Australia FTAs, ongoing UK/EU talks

GS Paper 3 — Economy

- Impact of US tariffs on India's export sectors
- PLI schemes and their export orientation
- Trade diversification strategy: ASEAN, Africa, Gulf

Mains Keywords

Reciprocal tariffs, trade deficit, bilateral trade agreement, WTO DSB, pharma exports, PLI scheme, trade diversification

KEY FACTS

US "Liberation Day" tariffs: April 2, 2026; India rate: 27%

India's US exports: ~\$87 billion (FY 2025); largest export destination

US-India trade deficit (in India's favour): ~\$45 billion

India's pharma exports to US: ~\$8 billion; 47% of US generic supply

WTO Appellate Body: Effectively paralysed since 2019 (US blocking new appointments)



Sources: [The Hindu](#), [PIB](#), [WTO](#)

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