

SBI RESEARCH

Tariff Truce on the Horizon: India, USA set to seal the Trade Deal

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- ❑ The final call on India-US trade deal will be in coming days, with the mini trade deal likely to be announced by mid-July. As per the latest information, India has already presented a final 'decent offer' from its side, which will be reviewed by those calling the shots at the Capitol. Basis indications, India's proposal covers goods trade worth around \$150 billion to \$200 billion between the two countries
- ❑ We believe that even if the India-US deal doesn't come up as desired and 10% additional tariffs are imposed on India, there are various avenues for India to diversify its exports
- ❑ Also, with India's service exports reaching a new high each year, a record \$387.5 bn in 2024-25 driven by sectors like IT, financial and business services, our total exports are not likely to get significantly impacted
- ❑ The US has increased tariffs on 23 countries with most of the Asian countries having higher tariffs than India
- ❑ This opens up opportunity for India to increase its exports to US, especially of those commodities in which it has revealed comparative advantage (RCA)
- ❑ Among the top 5 imports by the USA, India has RCA in Chemicals only, for which China and Singapore have higher share of exports to the US compared to India. China now faces higher tariffs and it presents opportunity for India to increase its share of Chemicals including pharma exports to the US. If India is successful to get the tariffs reduced to below 25% (which is for Singapore currently) then India can capture some of its share as well. If India can capture 2% share from these countries in Chemicals exports, then it can add 0.2% to its GDP. Another 1% share can be seized from Japan, Malaysia and South Korea which now face higher tariff than India, thereby adding 0.1% to its GDP
- ❑ India can also capture apparel exports share of Bangladesh, Cambodia and Indonesia. Currently India's share of apparel exports in the US imports is 6% and if India can capture another 5% from these countries, then it can add 0.1% to its GDP

- ❑ Moreover, there is opportunity to expand its exports to Asian countries which now face higher tariffs from the US. Apart from Chemicals, India can increase its exports of Agricultural goods, Livestock & its products, Waste and Scrap (especially metal scrap) and certain Animal and Vegetable Processed Products to these countries
- ❑ The ASEAN-India FTA in its present form is being reviewed to remove the tariff distortions and work on the weak provisions for “rules of origin” that has led to massive dumping of Chinese goods via some of these countries. India should focus on enhancing its exports to ASEAN and prevent dumping of goods from China
- ❑ Opening of agriculture and dairy sector appears to be the disagreement point between India and the US. One of the significant costs by opening up the Indian agri and dairy sectors to the US would be threat to livelihoods of the Indian farmers, especially the small ones engaged in dairy production as the dairy sector is heavily subsidized in the US. The use of growth hormones and genetically modified organisms in dairy in the US is another area of conflict. The influx of GM foods in India will also increase once the sector is opened up. This could pose public health standards conflict. Thus, India’s quest to safeguard its strategic interests, aligned to welfare of the bottom strata appears to be a prudent rationale, in sync with safeguarding of rural livelihoods
- ❑ As per our analysis, if the dairy sector is opened up, price of milk in India is likely to drop by atleast 15% which could cause potential annual loss of Rs 1.03 lakh crore to dairy farmers and increase our imports of milk by ~25 million tonnes. In terms of consumer and producer surplus, there would be a shift in surplus from producers to consumers after opening up the dairy sector to the US

- ❑ President Trump sent letters to 23 countries, announcing their new reciprocal tariff rate, effective 1 August
- ❑ Of the 23 countries, 17 countries now have lower tariffs compared to the earlier ones announced in April, with only Brazil, Canada, Japan, Brunei, Philippines and Malaysia having higher tariff rates imposed

Summary of New US tariffs		
Country	Tariff rate as on 02 Apr(%)	Tariff starting 01 Aug (% , letters sent)
Algeria	30	30
Bangladesh	37	35
Bosnia and Herzegovina	35	30
Brazil	-	50
Brunei	24	25
Cambodia	49	36
Canada	25	35
Indonesia	32	32
Iraq	39	30
Japan	24	25
Kazakhstan	27	25
Laos	48	40
Libya	31	30
Malaysia	24	25
Moldova	31	25
Myanmar	44	40
Philippines	17	20
Republic of Serbia	37	35
Republic of Tunisia	28	25
South Africa	30	30
South Korea	25	25
Sri Lanka	44	30
Thailand	36	36

- Most of the Asian countries face higher tariff rates compared to India at present
- Vietnam faces reduced tariff rate of 20% after the deal with the US. It is to be seen to what extent India can secure a reduction in tariffs from the USA

Asian countries trade with US- Summary in 2024					
	Reciprocal tariff applied on 02 Apr	Tariff post negotiation	Share in total US exports	Share in total US imports	Trade balance with \$ bn
Australia	10	-	1.68	0.5	18
Bangladesh	37	35	0.11	0.3	-6
Cambodia	49	36	0.02	0.4	-12
China	34	42	6.95	13.4	-296
Hong Kong	10	-	1.35	0.2	22
India	26	-	2.01	2.7	-46
Indonesia	32	32	0.49	0.9	-18
Japan	24	25	3.83	4.5	-69
Malaysia	24	25	1.34	1.6	-25
Philippines	17	20	0.45	0.4	-5
Singapore	10	-	2.18	1.3	2
South Korea	25	25	3.18	4.0	-66
Taiwan	32	-	2.06	3.6	-74
Thailand	36	36	0.87	1.9	-45
Vietnam	46	20	0.63	4.2	-123
Laos	48	40	0.00	0.7	1
Source: US international Trade administration, SBI Research					

- ❑ The table gives top imports by the USA and share of country in total import of that commodity
- ❑ India's share in top 5 imports by the USA is small when compared to other Asian countries
- ❑ Among the top 5 imports by the USA, India has RCA in chemicals only, for which China and Singapore have higher share of exports to the US compared to India
- ❑ China now faces higher tariffs it presents opportunity for India to increase its share of chemicals including pharma exports to the US
- ❑ If India is successful in getting the tariffs reduced to below 25% (which is for Singapore currently) then India can capture some of its share as well
- ❑ **If India can capture 2% share from these countries in Chemicals exports to the USA, then it can add 0.2% to its GDP**

US top 5 import items and country wise share in that item					
Country	Computer & Electronic Products	Transportation Equipment	Chemicals	Machinery, Except Electrical	Electrical Equipment, Appliances
US share in total	16.9	15.1	12.1	7.6	6.0
Australia	0.2	0.1	0.4	0.2	0.1
Bangladesh	0.0	0.0	0.0	0.0	0.0
Cambodia	0.3	0.0	0.0	0.0	0.5
China	22.2	3.9	6.0	13.0	28.7
Hong Kong	0.1	0.0	0.0	0.0	0.0
India	2.2	0.7	4.6	2.3	1.4
Indonesia	0.5	0.1	0.4	0.2	1.4
Japan	2.3	11.5	4.7	11.3	5.0
Malaysia	5.8	0.1	0.7	1.0	2.1
Philippines	1.1	0.2	0.1	0.3	0.9
Singapore	1.1	0.1	5.3	1.2	0.4
South Korea	3.6	9.4	3.2	5.7	5.6
Taiwan	14.1	1.0	0.7	2.9	2.2
Thailand	5.0	0.6	0.3	1.8	3.5
Vietnam	10.6	0.4	0.2	1.9	3.7
Source: US international Trade administration, SBI Research					

India can capture apparel exports share of Bangladesh, Cambodia and Indonesia

Top 5 items of imports by US in 2024 country-wise					
Country	Items and its % share in US import from that country				
Australia	Processed Foods	Primary Metal Manufactures	Chemicals	Computer & Electronic Products	Goods Returned (Exports for Canada Only)
	29.9	20.5	10.5	7.0	6.8
Bangladesh	Apparel & Accessories	Leather & Allied Products	Miscellaneous Manufactures	Textile Mill Products	Other Special Classification Provisions
	88.2	4.0	2.4	2.1	0.8
Cambodia	Apparel & Accessories	Leather & Allied Products	Computer & Electronic Products	Electrical Equipment, Appliances & Components	Plastics & Rubber Products
	30.8	20.3	11.1	8.1	7.3
China	Computer & Electronic Products	Electrical Equipment, Appliances & Components	Miscellaneous Manufactures	Machinery, Except Electrical	Fabricated Metal Products
	27.9	12.8	11.1	7.3	5.7
Hong Kong	Goods Returned (Exports for Canada Only)	Primary Metal Manufactures	Miscellaneous Manufactures	Computer & Electronic Products	Processed Foods
	44.7	21.1	20.1	5.0	1.6
India	Chemicals	Miscellaneous Manufactures	Computer & Electronic Products	Machinery, Except Electrical	Apparel & Accessories
	20.8	14.3	13.7	6.5	5.7
Indonesia	Apparel & Accessories	Processed Foods	Leather & Allied Products	Electrical Equipment, Appliances & Components	Computer & Electronic Products
	15.3	12.9	11.8	9.6	9.1
Japan	Transportation Equipment	Machinery, Except Electrical	Chemicals	Computer & Electronic Products	Electrical Equipment, Appliances & Components
	38.5	18.9	12.4	8.6	6.6
Malaysia	Computer & Electronic Products	Electrical Equipment, Appliances & Components	Chemicals	Miscellaneous Manufactures	Machinery, Except Electrical
	60.8	8.0	5.6	5.0	4.9
Philippines	Computer & Electronic Products	Electrical Equipment, Appliances & Components	Processed Foods	Transportation Equipment	Machinery, Except Electrical
	44.4	12.4	9.5	7.2	5.0
Singapore	Chemicals	Computer & Electronic Products	Goods Returned (Exports for Canada Only)	Machinery, Except Electrical	Processed Foods
	48.4	13.9	10.2	7.0	6.5
Thailand	Computer & Electronic Products	Electrical Equipment, Appliances & Components	Plastics & Rubber Products	Machinery, Except Electrical	Processed Foods
	43.5	10.7	7.7	7.0	6.5
South Korea	Transportation Equipment	Computer & Electronic Products	Machinery, Except Electrical	Chemicals	Electrical Equipment, Appliances & Components
	35.3	15.2	10.8	9.7	8.3
Taiwan	Computer & Electronic Products	Machinery, Except Electrical	Fabricated Metal Products	Transportation Equipment	Electrical Equipment, Appliances & Components
	66.7	6.1	5.6	4.1	3.7
Vietnam	Computer & Electronic Products	Apparel & Accessories	Furniture & Fixtures	Leather & Allied Products	Electrical Equipment, Appliances & Components
	42.9	11.1	8.8	7.3	5.4

Source: US international Trade administration, SBI Research

- ❑ The table gives top 5 exports to US from the country and their share in that country's exports
- ❑ Chemicals is the top export by India to the USA. Australia, Japan, Malaysia, Singapore and South Korea have chemicals among their top 5 exports to the USA. **As Japan, Malaysia and South Korea face higher tariff than India, India can try to capture some of their chemicals export share. India can seize another 1% share from these countries in chemical exports to the USA, which can add 0.1% to its GDP**
- ❑ Apart from chemicals, India has RCA in textiles, and it exports apparel and accessories to the US
- ❑ It faces competition from Bangladesh, Cambodia, Indonesia and Vietnam when it comes to apparel exports
- ❑ Apart from Vietnam, current tariff structure shows all these countries have higher tariffs than India. Certainly, India can benefit from the same
- ❑ **Currently, India's share of apparel exports in the US imports is 6% and if India can capture another 5% from these countries, then it can add 0.1% to its GDP**

Further, India can export more to the Asian countries

Top 5 items share in Country wise exports from US in 2024					
Country	Items and its % share in US exports to that country				
Australia	Transportation Equipment	Machinery, Except Electrical	Computer & Electronic Products	Chemicals	Miscellaneous Manufactures
	19.8	16.7	14.2	13.1	5.7
Bangladesh	Waste And Scrap	Agricultural Products	Oil & Gas	Chemicals	Paper
	28.8	28.5	12.1	11.8	2.7
Cambodia	Used Or Second-Hand Merchandise	Processed Foods	Transportation Equipment	Beverages & Tobacco Products	Livestock & Livestock Products
	24.7	13.2	12.4	9.5	6.0
China	Chemicals	Computer & Electronic Products	Transportation Equipment	Agricultural Products	Oil & Gas
	17.9	13.9	12.7	12.6	8.5
Hong Kong	Computer & Electronic Products	Miscellaneous Manufactures	Transportation Equipment	Chemicals	Used Or Second-Hand Merchandise
	38.5	24.3	6.6	4.5	4.3
Indonesia	Chemicals	Agricultural Products	Oil & Gas	Processed Foods	Machinery, Except Electrical
	18.8	16.7	11.8	8.8	7.9
Japan	Chemicals	Oil & Gas	Computer & Electronic Products	Transportation Equipment	Processed Foods
	19.8	12.2	11.0	10.9	7.4
Malaysia	Computer & Electronic Products	Transportation Equipment	Machinery, Except Electrical	Waste And Scrap	Chemicals
	43.9	8.5	8.1	7.5	7.3
Philippines	Computer & Electronic Products	Processed Foods	Agricultural Products	Chemicals	Electrical Equipment, Appliances & Components
	30.3	25.4	9.6	7.2	5.9
Singapore	Oil & Gas	Computer & Electronic Products	Transportation Equipment	Chemicals	Machinery, Except Electrical
	17.5	15.8	15.0	11.4	10.3
Thailand	Oil & Gas	Computer & Electronic Products	Chemicals	Waste And Scrap	Transportation Equipment
	20.8	19.2	9.8	9.8	9.1
South Korea	Oil & Gas	Chemicals	Machinery, Except Electrical	Computer & Electronic Products	Transportation Equipment
	27.1	12.3	10.5	10.3	9.7
Taiwan	Computer & Electronic Products	Oil & Gas	Machinery, Except Electrical	Transportation Equipment	Chemicals
	28.1	17.5	12.8	8.5	7.9
Vietnam	Computer & Electronic Products	Agricultural Products	Chemicals	Processed Foods	Transportation Equipment
	33.1	13.6	11.7	9.6	4.1

Source: US international Trade administration, SBI Research

- ❑ The table gives top 5 imports of Asian countries from the US and their share in that country's imports
- ❑ After higher tariffs imposed by the US on these countries, India can capture some of their market and look to increase its exports to the Asian countries of those commodities where it has revealed comparative advantage
- ❑ Apart from Chemicals, India can increase its exports of agricultural goods, livestock & its products, waste and scrap (especially metal scrap) and certain animal and vegetable processed products to the Asian countries

- ❑ India has a free trade agreement with ASEAN countries, ASEAN-India FTA (AIFTA) which is a comprehensive economic cooperation agreement between the ten member states of the ASEAN and India
- ❑ ASEAN is a major trading partner for India, with bilateral trade reaching \$123 billion in 2024-25
- ❑ Share of ASEAN in India's exports has reduced over the years, while the share of imports has remained stable
- ❑ India-ASEAN are reviewing the FTA to remove the tariff distortions and work on the weak provisions for "rules of origin" that has led to massive dumping of Chinese goods via some of the 10 ASEAN countries

India-ASEAN bilateral trade					
	Export(\$ bn)	% share in India's overall export	Import(\$ bn)	% share in India's overall import	Trade balance(\$ bn)
FY 20	32	10.1	55	11.7	-24
FY 21	31	10.8	47	12.0	-16
FY 22	42	10.0	68	11.1	-26
FY 23	44	9.8	88	12.2	-44
FY 24	41	9.4	80	11.7	-38
FY 25	39	8.9	84	11.7	-45

Source: Ministry of commerce and Industry; SBI Research

India's top 10 items Exports to ASEAN countries	
Export items	% share
Mineral Fuels, Mineral Oils and Products of their Distillation	22.64
Nuclear Reactors, Boilers, Machinery and Mechanical Appliances	11.66
Ships, Boats and Floating Structures.	5.56
Organic Chemicals	5.38
Meat And Edible Meat Offal	4.48
Vehicles Other Than Railway or Tramway Rolling Stock and Parts	4.15
Electrical Machinery And Equipment and Parts Thereof	3.47
Pharmaceutical Products	3.35
Natural Or Cultured Pearls,Precious Or Semiprecious Stones,Pre.Metals,Clad With Pre.Metal And Artcls Thereof;Imit.Jewlry;Coin.	3.32
Aluminium And Articles Thereof	2.10
India's total export to ASEAN	8.91

- ❑ China's trade with ASEAN countries continues to increase over the years, with exports reaching 16.4% of China's exports in 2024
- ❑ Country's trade balance with ASEAN has increased to \$191 bn in 2024 from \$77 bn in 2019
- ❑ China ASEAN FTA aims to reduce trade barriers and enhance economic cooperation between the two regions. The agreement was established in 2010 and has been upgraded over time, with the latest version, CAFTA 3.0, expected to be signed by the end of 2025
- ❑ China and the Association of Southeast Asian Nations (ASEAN) have completed negotiations to refine their free trade area to include the digital and green economy and other new industries
- ❑ **India can enhance its exports to ASEAN and prevent dumping of goods from China through ASEAN countries**

China-ASEAN bilateral trade					
	Export(\$ bn)	% share in China's overall export	Import(\$ bn)	% share in China's overall import	Trade balance(\$ bn)
2019	359	14.4	282	13.6	77
2020	384	14.8	301	14.6	83
2021	484	14.4	395	14.7	89
2022	567	15.8	408	15.0	159
2023	524	15.5	388	15.2	136
2024	587	16.4	396	15.3	191

Source: General administration of customs, China; SBI Research

Potential benefits for India

- ❑ Access to US market for high-value agri products (like organic foods, spices etc) to the US market. India currently exports <\$1 bn of these goods and has potential to export more than \$3 bn based on the US demand for these. Fruits and vegetables like mangoes, litchis, bananas and okra might increase if the SPS bans are lifted. Currently, non-tariff barriers limit Ayush and generics exports, once lifted it can increase exports of these by \$1-2 bn. Easier visa norms or outsourcing access can further increase our exports of IT and services
- ❑ Opening up could attract US investment in cold storage, logistics and technology driven precision farming
- ❑ Agri inputs cost of feed, machinery, vet products might get reduced
- ❑ Strengthening of ties with the US could lead to broader economic and security cooperation among the two countries

Potential Export Gain	
Organic Agri (Rice, Spices, tea, cotton)	>\$3bn
Fresh Fruits & Veges (Mangoes, Litchis, bananas, Okra)	\$1 bn
Processed foods (snacks, beverages, ready to eat)	\$1-1.5 bn
Pharma & Ayush products	\$1-2 bn
IT & Services	\$2-3 bn

❑ Potential Costs for India

- ❑ One of the significant costs by opening up the agri and dairy sectors to the US would be threat to livelihoods of the Indian farmers, especially those small ones engaged in dairy production as the dairy sector is heavily subsidized in the US
- ❑ Another issue is the use of growth hormones and genetically modified organisms in dairy which is banned in India. The influx of GM foods in India will also increase once the sector is opened up. This could pose public health standards conflict

❑ Detailed impact of opening up Dairy sector

- ❑ Price Reduction: If India opens up its dairy sector, the impact can be analysed through change in domestic milk price, which will go down by ~15-25%

Estimate of domestic milk price reduction after opening up	
Domestic milk price (Rs/Lt)	50
US export price (Rs/Lt) after subsidisation	25
Transport & cold storage cost (Rs/Lt)	4
Tariff earlier prohibitive	60%
After negotiation	0-10%
Price after opening up	32
estimated price drop	36%
Assuming 40% passthrough	14%
Assuming 70% passthrough	25%
Domestic milk price drop approx.	15-25%

- ❑ If we assume 15% drop in domestic milk price then total revenue loss would be Rs 1.8 lakh crore. Assuming farmer's share as 60% and adjusting for change in supply due to price drop the annual loss to farmers comes around Rs 1.03 lakh crore

Farmer Income loss due to opening up of dairy	
Domestic milk price drop 15% (Rs/lt)	7.5
Total milk production (bn lt)	240
Total revenue loss (Rs bn)	1800
Total revenue loss (Rs lakh crore)	1.8
Farmer income loss (assuming 60% is farmer's share)	1.08
Adjustment due to supply adjustment (elasticity=0.3)	4.5%
New supply (bn lt)	229.20
Revised farmer loss (Rs bn)	1031.4
Revised farmer loss (Rs lakh crore)	1.03

- ❑ Dairy sector contributes 2.5-3% to the national GVA, which is around Rs 7.5-9 lakh crore. With the sector providing direct employment to 8 crore people, this translates one job per every 1 lakh contribution to GVA. With 15% reduction in price of milk, farmer loss is 1.03 lakh crore. However, after taking into account input cost of feed, fuel transport, non-paid family labour, the GVA loss can be approximated to 50% of the total loss or Rs 0.51 lakh crore

Estimate of potential GVA loss due to 15% reduction in milk price	
GVA contribution of Dairy sector	2.5-3%
GVA contribution of Dairy sector (Rs lakh crore)	7.5-9
Direct employment in Dairy sector (crore)	8
Jobs per lakh of dairy GVA (approx)	1
GVA loss due to opening of dairy (~50% of loss) (Rs lakh crore)	0.515

- 15% decline in price of milk will lead to higher demand for milk amounting to 14 million tonnes (assuming elasticity of demand as 0.4). meanwhile, supply will decline by around 11 million tonnes. This gap of around 25 million tonnes will be fulfilled by imports

Import of Milk when milk price reduce by 15% (million tonnes)	
Increase in demand due to lower price (Taking -0.4 elasticity of demand)	14.4
Decline in domestic supply due to lower price (Taking 0.3 elasticity of supply)	10.8
Demand-supply gap to be filled by imports	25.2

- In terms of consumer and producer surplus, the initial equilibrium milk price in the domestic market is given as Rs 50/ltr and equilibrium quantity comes at 240 bn litres

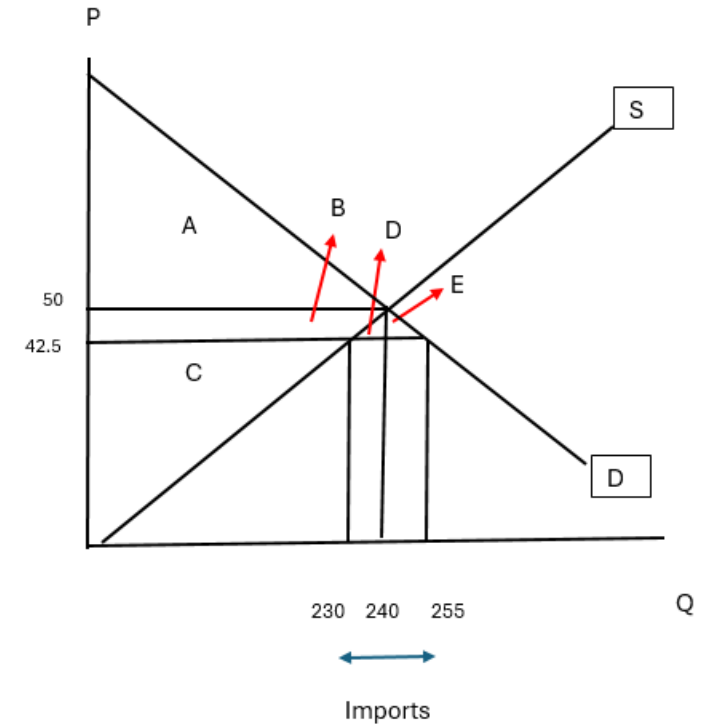
Ex-ante consumer surplus = A, producer surplus = B+C

- Now the price of 1 litre milk from the US comes to Rs 32/ltr after taking into account cold storage and transportation costs. However, not all the supply will come to India due to various reasons like capacity constraints and other issues. Thus, assuming partial passthrough of 40-70% in the initial years, the price decline will come around 15-25%. Thus assuming 15% reduction in price will lead to decline in domestic price to Rs 42.5/ltr. At this price the domestic consumption will increase to 255 bn litres, while the domestic supply will reduce to 230 bn litres. Thus, the gap of 25 bn litres will be imported from the US

Ex-post consumer surplus = A+B+D+E, producer surplus = C

Thus, **overall gain = D+E**

Opening up of Dairy sector is sensitive issue as livelihoods of many small and marginal farmers depend on it



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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