Why India must broaden its trade base in the era of reciprocal tariff

Amid the US's shifting trade stance towards greater protectionism, India's excessive reliance on that market, especially for pharma exports, could emerge as a concern

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In April 2025, the US introduced sweeping changes to its import tariff policy under President Donald Trump, marking a significant shift towards protectionism. A new 10 per cent universal baseline tariff was imposed on all imports starting April 5, aiming to reduce trade deficits and boost domestic production. Additionally, from April 9, country-specific tariffs ranging from 11 per cent to 50 per cent were applied to 57 countries based on the size of the US trade deficit with each of them.

The US has imposed a 26 per cent tariff on imports from India, triggering economic turmoil marked by a decline in the stock market and heightened uncertainty across trade-dependent sectors. Exports in products like fur skins and their manufactures, meat and seafood preparations, carpets and other textile floor coverings, and works of art and antiques are highly dependent on the US, with more than 50 per cent of their total export value directed to the US market.

However, the combined share of these products in India's total exports to the US is less than 10 per cent. Products such as pharmaceuticals, electrical machinery and equipment, natural or cultured pearls, precious or semi-precious stones and metals, and nuclear reactors, boilers, and mechanical appliances together account for a significant 46 per cent share of India's total exports to the US. India stands at a crossroads as reciprocal tariffs of the US redraw global trade maps. In the face of aggressive tariff actions by the US, countries are adopting two broad strategic responses: retaliation through reciprocal tariffs and diversification by seeking new trade partners.

Nations like China, the European Union, and Canada have chosen direct retaliation to protect their economic interests and signal strength, others — like India — are focusing on expanding trade partnerships and strengthening regional alliances to reduce dependency on traditional markets. Former Chief Economic Adviser Kaushik Basu has emphasised the importance of this second path, arguing that building resilient, diversified trade networks is more sustainable in the long run than reactive protectionism, especially for emerging economies navigating an increasingly fragmented global trade environment.

The key question now is how feasible it is to expand trade in these products with alternative partners beyond the US. The gap between the US' share and the combined share of India's next top five trading partners (excluding the US) in total export value highlights key trade dynamics. A wider gap indicates limited diversification of export destinations, greater vulnerability to US trade policy shifts, and increased difficulty in quickly redirecting exports in the event of disruptions.

Higher dependency

In essence, the larger the gap, the higher the dependency on the US market, making India's export strategy more exposed to external shocks from a single trade partner. Approximately 18 per cent of India's export earnings are generated from the US, while the combined share of the next top five trading partners (excluding the US) accounts for 23 per cent of total Indian exports. This gap suggests that, although the US remains India's dominant export destination, the country does maintain access to a diverse set of other markets, indicating a degree of export diversification alongside significant reliance on the US market

The Chart clearly reflects varying levels of export concentration across sectors. For products like natural or cultured pearls and precious stones, where the combined share of other top five partners (56 per cent) exceeds the US share (30 per cent), demonstrate a more diversified export base, reducing exposure to a single market. The moderate gaps in electrical machinery (US 32 per cent vs. other top five 26 per cent) and mechanical appliances (US 21 per cent vs. other to five 22 per cent) indicate a relatively balanced trade relationship, offering greater resilience through broader market access. In contrast, the Indian pharmaceuticals sector, where the US accounts for 37 per cent of India's exports compared to just 13 per cent by the next top five partners combined, the export dependency on the US is particularly high.

Certain goods will be exempt from the reciprocal tariff, including copper, pharmaceuticals, semiconductors, lumber products, and specific minerals that are not readily available within the US, among others. However, pharmaceuticals are included in the list of potential future actions outlined in the Executive Order issued by the White House on April 2 regarding reciprocal tariffs. The order emphasises that the need to maintain a robust and resilient domestic manufacturing base is especially critical in key advanced industrial sectors such as automobiles, shipbuilding, pharmaceuticals, technology products, machine tools, and basic and fabricated metals.

India's reliance on the US for pharmaceutical exports may not present an immediate risk, but it is an emerging concern on the horizon, particularly amid the US's shifting trade stance towards greater protectionism.

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