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Tariff Turbulence: The ripple effects of Trump's trade policies on Indian exports

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Synopsis
The US imposed tariffs on Indian imports, starting with 10% on April 5, 2025, escalating to 26% before a 90-day suspension on specific tariffs from April 10. As India and the US negotiate a trade deal, Indian exporters, particularly in sectors like machinery, pharmaceuticals, and textiles, face potential financial impacts.


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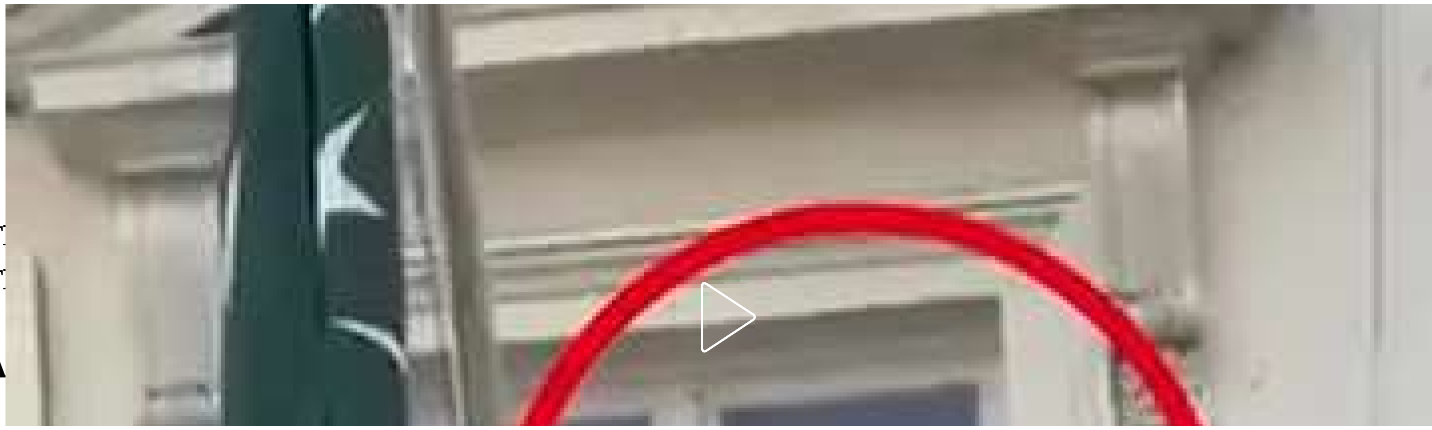
The White House has been abuzz with "tariffic" activity in the past few days. The fast-evolving nature of the situation has certainly kept the concerned parties on their toes, including the present authors.

On April 2, US President **Donald Trump** signed an executive order (EO) titled "Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits".

To "rebalance global trade flows", the EO set out the "Reciprocal Tariff Policy" imposing additional tariffs on all imports from all USA trading partners. The tariffs were stated to start at 10% and were to subsequently increase to country-specific rates. For India, the aggregate increased tariffs under the EO stood at 26% (inclusive of the initial 10%).



Goods exported from India to the US between April 5, and April 9, were subject to 10% tariffs, and goods exported after April 9 were subject to 26% tariffs. The tariffs under the EO were specified to apply only to non-USA content of a specific article, provided at least 20% percent of the value of such article is USA originating.

However, another executive order on April 9 put a 90 day pause/suspension on the country specific tariffs introduced under the first EO. The suspension/pause operates on goods entering for consumption or withdrawn from a warehouse for consumption on or after 12.01 am EDT on April 10 and is to continue till 12.01 am EDT on July 9.

Meanwhile, India and the USA are also reportedly negotiating a comprehensive trade deal with the terms of reference having been agreed upon. It is also reported that India may be planning to reduce the tariffs levied on imports from the USA, and the same may also find place in the comprehensive trade deal being negotiated between the two countries.

The top exports products from India to the US include electrical machinery, equipment and parts, natural or cultured pearls, precious or semi-precious stones, pharmaceutical products, medicines for retail sales, nuclear reactors and boilers, diamonds, mineral fuels and oils, petroleum oils, textiles and apparel, chemical products (including plastics, organic and inorganic chemicals), automotive components (including engine parts, transmission components, electrical systems). Exports in the above sectors are likely to be affected by the increased tariffs.

Given the approach adopted by the US, it is unlikely that any potential trade deal will entirely reverse the tariff rates to what existed prior to the first EO. Thus, Indian entities engaged in exports to the USA, including in the above sectors, might have to prepare themselves for an increase in the tariffs on exports to the US. In any case, for the immediate future and pending finalisation of the trade deal, the increased levy of 10% will be applicable to all imports from India to the USA.

Consequently, entities exporting from India as well as importing in the USA, might feel the need to review their contracts to examine the implications of such tariffs. Contractual claims and disputes are also likely to arise as a result.

Elaborate and well negotiated contracts usually include clauses covering the effect of increased levies on pricing, “change of law” and “force majeure” clauses, clauses fixing liability for taxes, duties and other levies as well as clauses on limitation of liabilities. The specific language of such clauses will determine how the increased tariffs affect the respective parties.

For instance, if the contracts provide for pricing to be inclusive of leviable taxes / duties, the increase in tariffs might also increase the price of goods exported. “change of law” clauses might require the party suffering any financial implication due to such change in law, to be compensated by the other party to neutralize the effect of such change. However, given the financial exposure, such clauses may potentially lead to calls for renegotiation of the contract or even invocation of dispute resolution mechanisms.

Similarly, depending on the language, “force majeure” clauses may or may not cover situations like these increased tariffs. This is because force majeure clauses typically deal with situations where the contract cannot be performed at all and not when the performance becomes financially onerous. Clauses in such contracts which limit the liabilities of parties might also come in for closer examination and review if required.

Entities which have been historically exporting goods on a fixed price / fixed fee basis or under not so elaborate contracts are also likely to feel a pressing need for review of their terms of export and assess any potential financial liability due to these tariffs. Skeletal contracts not containing “change of law” or “force majeure” clauses might require detailed review, negotiation and might also be more exposed to monetary claims to be determined as per applicable law.

The "**Trump Tariffs**" under the EO are likely to have significant ramifications for trade between India and the US. Their abrupt introduction, current pause and unpredictable (even if potentially positive) future are likely to create confusion and potential disruptions in the supply chain.

Exporters and importers will need to carefully review and potentially renegotiate their contracts to address the financial implications of these increased tariffs. The situation may lead to contractual disputes, with specific focus on clauses related to pricing, change of law, force majeure, and liability for taxes and duties. As the trade landscape adjusts to these new tariffs, parties will need to navigate the complexities to mitigate financial and operational impact.

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