



A Comprehensive guide - US Tariffs and Trade

Knowledge Series

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❖ Introduction

The U.S. has long wielded tariffs as a tool to reshape global trade dynamics, sparking a wave of retaliatory and adaptive strategies from affected nations. While the economic fallout of these tariffs—such as disrupted supply chains and inflationary pressures—is significant, the diplomatic and strategic responses by targeted countries reveal a broader reordering of global alliances and trade priorities. Let's deep sown into this one and understand from the basics.

❖ What is tariff?

A tariff, also known as customs duty, is a tax levied on a country's imported goods at the border. The terms 'tariffs', 'custom' and 'duty' can be used interchangeably. It is levied on the domestic importers of a country.



❖ Why are Tariffs Imposed?

Tariffs mean a way of revenue generation for the government. Additionally, it also serves multiple other national interests, such as promoting domestic and local goods and services by making them more affordable.

It is seen as a protectionist barrier by the government to make the imported products less desirable or competitive in the market compared to the domestic & local alternative goods and services. Additionally, tariffs are also a big source of revenue for the government.

Tariffs may serve as a geopolitical tool, allowing governments to exert pressure on other nations in

response to perceived unfair trade practices, such as dumping products at below-market prices or violating intellectual property rights.

❖ What is the Purpose of a Tariff?

A tariff imposed on imported goods helps to support a developing economy. Here are some objectives of tariffs:

- **Support domestic producers:** Government intends to support local or domestic producers by imposing taxes on imported products. This, in turn, also benefits the employment sector of a country.
- **Safeguard domestic consumers:** Sometimes, it may be the case that certain imported products contain harmful substances for consumers. Hence, overly priced products will keep consumers away from purchasing imported goods and services.
- **Support indigenous industries:** In this growing economy of a developing country, it is important to support the newly emerging industries and companies. Tariffs imposed on imported goods will divert the consumers towards purchasing from local producers.
- **Protect dependence on domestic industries of national importance:** Government may need to protect the business which holds strategic importance to national security from being overly dependent on imported goods & services.

❖ What are the Different Types of Tariffs?

There are four principal types of tariffs applicable – specific tariffs, compound tariffs, ad valorem (according to the value), and tariff-rate quota. Here is a brief description of these types:

- **Specific tariffs:** A specific tariff is levied on a product irrespective of its value. It depends on the number of units or weight of the imported product rather than its value. For example, a country can levy Rs. 15 on a pair of shoes but Rs. 100 on a single jacket.

- **Compound tariffs:** A compound tariff depends on the imported product's unit and value. For example, if the tariff imposed on imported apples is Rs. 5 per unit, a compound tariff will include this and an additional percentage on the value of the goods.
- **Ad valorem:** "ad valorem" is a Latin word that means "according to value". Hence, it is quite understandable that this type of tariff is applicable based on the import value of the product. This is calculated in the form of a percentage rather than a monetary figure. For example, Japan levies a 15% tariff on US automobiles.
- **Tariff-rate quota:** A tariff-rate quota combines two trade policies - tariffs and quotas. It levies a specific tariff rate on imported goods up to a specific amount. For example, a country can levy a 10% tariff on 5000 bags but when the number exceeds 5000, the tariff rate will be increased to 20%.

❖ The 2025 Flashpoints - Where Trade Tensions Exploded

The U.S.-China Trade Conflict: Escalation in Economic Warfare

In 2025, trade relations between the United States and China reached a critical juncture, intensifying a rivalry that has been simmering for over a decade. The escalation took the form of aggressive tariff measures aimed at disrupting each other's strategic economic sectors. The United States, citing concerns around national security and unfair trade practices, announced sweeping tariff hikes of up to **145%** on select Chinese imports. These included high-value technology products such as **electric vehicles (EVs)** and **semiconductors** – industries seen as the backbone of future economic and military power.

The official rationale from Washington centred on the need to protect domestic innovation, counteract perceived state subsidies in Chinese manufacturing, and reinvigorate American

industrial competitiveness. The move was also politically charged, reflecting bipartisan support in the U.S. Congress to adopt a tougher stance on China.

In swift retaliation, China imposed its own set of tariffs reaching **125%** on key U.S. exports, particularly **Agri-Tech equipment** and **rare earth minerals**. These sectors were strategically chosen to strike at the core of American supply chains. Rare earths, essential for defence technologies, electric mobility, and high-tech manufacturing, are an area where China maintains a dominant global position.

The consequences were immediate and far-reaching. Multinational corporations were forced to reassess their global supply strategies, while commodity markets and technology sectors experienced heightened volatility. The conflict also further strained bilateral ties, pushing both nations to deepen alliances elsewhere – the U.S. with Indo-Pacific allies and China with BRICS+ partners.

This trade standoff underscored the erosion of trust in multilateral trade systems and institutions such as the **World Trade Organization (WTO)**. The WTO's dispute resolution mechanisms struggled to keep pace with the speed and scale of the retaliatory measures, reinforcing a shift toward unilateral and bilateral trade instruments.

• Timeline: Jan–Apr 2025 Tariff Escalations



These dates mark a coordinated intensification of trade hostilities between the world's two

largest economies. Notably, the **February–April 2025 window** became a diplomatic and economic pressure cooker. The **WTO** was inundated with dispute cases, and capital markets mirrored the uncertainty with consistent volatility. Meanwhile, rare earth restrictions imposed by China sparked fears over the availability of key inputs for Western defence and green energy industries.

- **The European Union's CBAM: When Climate Meets Commerce**

The **European Union (EU)** took a markedly different yet equally consequential step by introducing the **Carbon Border Adjustment Mechanism (CBAM)** in 2025. CBAM represents a new era in trade policy where climate obligations are integrated into cross-border taxation.

Under CBAM, the EU imposes additional levies on imports of goods produced through carbon-intensive processes. Sectors initially targeted include **steel, cement, fertilizers, aluminium, and electricity**. This adjustment aims to ensure that non-EU manufacturers do not gain a competitive edge over EU firms who are already subject to stringent emissions regulations under the **EU Emissions Trading System (ETS)**.

The logic behind CBAM is straightforward: to prevent "carbon leakage" and encourage decarbonization globally. If goods produced in less environmentally regulated countries could enter the EU at lower costs, it would undermine the EU's internal climate goals. With CBAM, the bloc sends a clear signal that environmentally harmful production processes will no longer enjoy tariff-free access to its markets.

However, the measure sparked criticism, particularly from developing economies. Nations including India, Indonesia, and Brazil argued that CBAM unfairly penalizes producers who may lack access to green technology and finance. Additionally, it raised concerns about protectionism disguised as climate policy. Still, the EU defended the

mechanism as WTO-compliant and necessary for achieving the **European Green Deal's** carbon neutrality targets.

The implementation of CBAM compelled global exporters to revisit production strategies, pushing companies to invest in low-carbon technologies or risk exclusion from the world's third-largest market. In essence, CBAM set a precedent for future trade agreements, where **climate-aligned trade mechanisms** are expected to become more commonplace.

- **Timeline: Jan–Apr 2025 CBAM Rollout**



In March 2025, as the CBAM took effect, it was met with both compliance and caution. Industries heavily reliant on EU markets began carbon auditing their supply chains. By April, as G20 countries met, CBAM became a central discussion point, with the EU insisting it be seen not as a protectionist tool, but a necessary climate strategy. However, behind closed doors, European leaders also explored diplomatic safeguards to prevent tit-for-tat carbon taxes from major partners like China and India.

- **India's Strategic Tariff Realignment: Protecting Sovereignty and Promoting Self-Reliance**

India, amidst rising global protectionism, opted for a **targeted tariff strategy** aimed at reinforcing domestic economic resilience and reducing strategic vulnerabilities. In 2025, the Indian government raised import duties on a select group of products originating from China, specifically **consumer electronics, telecommunications equipment, and solar photovoltaic modules**.

This move was a continuation of India's broader **Aatmanirbhar Bharat (Self-Reliant India)** initiative, which aims to reduce dependence on foreign components in critical sectors. Policymakers justified the tariff hike on multiple grounds:

1. **National Security Concerns:** Growing tensions along the India-China border and cyber-security threats elevated concerns around the use of Chinese hardware in sensitive digital infrastructure.
2. **Industrial Development:** India sought to protect nascent domestic manufacturing industries from being outcompeted by heavily subsidized Chinese imports.
3. **Energy Transition Goals:** While increasing tariffs on imported solar panels may raise short-term costs, the long-term objective is to develop a robust domestic solar manufacturing ecosystem, aligned with India's 2030 renewable energy targets.

Complementing the tariff adjustments, India also announced enhanced incentives under the **Production Linked Incentive (PLI)** schemes for electronics and clean energy sectors. These measures aimed to attract global firms seeking a "China+1" strategy and to embed India deeper into diversified global supply chains.

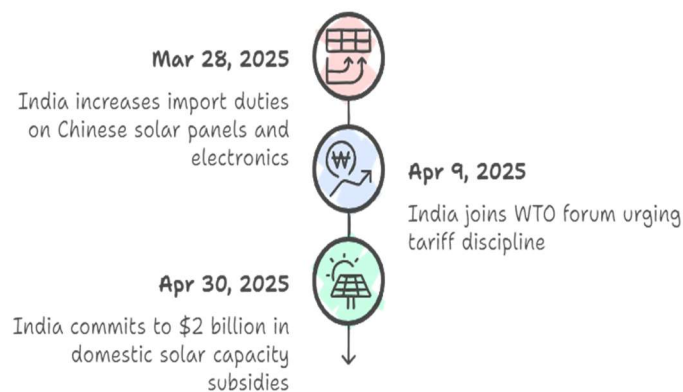
Although some industry stakeholders raised concerns over potential delays in infrastructure projects and the affordability of solar installations, the broader consensus acknowledged the need for strategic autonomy in manufacturing.

India's approach illustrated the multi-dimensional nature of tariffs: not merely as tools for revenue generation but as levers for **national security, economic strategy, and climate leadership**.

- **Timeline: Jan–Apr 2025 India's Tariff Action**

The March tariff hike marked India's formal entry into the global tariff spiral of 2025. Rather than a knee-jerk reaction, it was tied to a

national industrial vision. India's April



diplomacy at the WTO signalled its support for reform, not isolationism. Meanwhile, subsidies rolled out at the end of April underlined the government's focus on domestic capacity-building, not just import restriction.

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❖ **Impact on Indian Industries and Market**

- **Impact on Indian Industries:**

Electronics Sector:

Tariff hikes on Chinese components have raised costs by 5–12% for Indian electronics makers, disrupting product launches and squeezing margins. Heavy reliance on imports, especially semiconductors, has hurt growth. ESC flagged lost export opportunities. However, this has spurred domestic chip manufacturing efforts across Indian states.

Renewable Energy Sector

35% duty on solar modules and 25% on cells has led to project cost overruns of up to 20% and delayed solar installations. IPPs face funding hurdles and PPA renegotiations. While aligned with domestic manufacturing goals, the tariffs have dented investor confidence in the short term.

• MSMEs - The Fragile Backbone Under Pressure:

- India's MSMEs, contributing 30% to GDP and employing 110 million, are struggling with rising input costs due to tariffs. Lack of access to capital, logistics support, and trade finance worsens the situation. Urgent policy support is needed to prevent long-term disruptions.
- Sectors like auto parts, textiles, and toys—dependent on cheap Chinese imports—face margin squeezes. In some clusters, operations have stalled entirely due to high costs or lack of raw materials.
- An April 2025 - Federation of Indian Micro and Small & Medium Enterprises (FISME) survey showed 62% of MSMEs faced input cost hikes of over 15%, while 40% reported export order delays due to material shortages. These challenges highlight severe vulnerabilities.

• Financial and Market Fallout: India's Capital Markets Reaction

- The U.S.-China tariff escalation announced on April 2, 2025, sent shockwaves through the global economy, and India was no exception. The Indian stock markets reacted with steep losses—benchmark indices like the Nifty 50 and Sensex fell by over 5% in the days following the announcement, erasing nearly Rs. 20 lakh crores in investor wealth. This market rout was among the worst since the COVID-19 pandemic, highlighting how closely Indian capital markets are tied to global risk perceptions.

- Foreign Portfolio Investors (FPIs), who are typically sensitive to macroeconomic uncertainty, withdrew over Rs. 30,000 crores from Indian equities during April alone. The rupee depreciated to Rs. 86.6171/USD on 9th April 2025, marking its weakest level in the month, driven by global risk-off sentiment and FPI outflows. The weaker rupee increased India's import bills, particularly for crude oil, semiconductors, and industrial machinery, further exacerbating inflationary pressures.

• Export Demand Deterioration and Strategic Concerns

- Global trade disruption slowed demand for Indian exports, especially in auto parts, textiles, and pharma. Freight issues and falling trade confidence hurt export competitiveness.
- Moody's downgraded India's GDP growth forecast for FY 2025-26 by 30 bps to 6.1%, citing weak external demand and trade uncertainties. Exporters struggled with pricing amid high input costs and tight liquidity.
- Some analysts see a strategic motive behind the tariff shock. The resulting panic drove investors to U.S. Treasuries, lowering yields from 4.2% to below 3.9%. This enabled the U.S. to refinance \$7.2 trillion in debt at lower costs, saving billions in interest.

❖ India's Emerging Role

• India's Strategic Positioning: Navigating a Complex Geopolitical Landscape

Amidst this intensifying global rivalry, India occupies a unique and increasingly influential position. As the world's most populous democracy and a rapidly growing economy, India is seen as both a strategic partner and a potential alternative supply chain hub.

○ **Diplomatic Balancing Act**

India has adopted a multi-aligned approach in its foreign policy, carefully managing its relationships with both Western and Eastern blocs:

➤ **Engagement with the West:**

Strengthening strategic and defence partnerships with the United States, including participation in military exercises and defence technology sharing.

Active membership in the Quadrilateral Security Dialogue (QUAD) alongside the U.S., Japan, and Australia, which aims to ensure a free and open Indo-Pacific.

➤ **Continued Ties with China and BRICS:**

Despite border tensions and competition, India maintains significant trade relations with China.

India plays an active role in BRICS (Brazil, Russia, India, China, South Africa), as well as the Shanghai Cooperation Organization (SCO), positioning itself as a bridge between the developed and developing world.

➤ **Strategic Autonomy as a Strength**

India's commitment to strategic autonomy allows it to act as a neutral stabilizer in global affairs. This positioning has earned it credibility in multilateral institutions such as the G20, where it has championed issues relevant to the Global South, including debt relief, climate action, and digital inclusion.

With companies and countries increasingly seeking to diversify supply chains away from China, India has a prime opportunity to present itself as a reliable, democratic, and scalable alternative.

❖ **India's moment of opportunity**

• **Diversion of trade to India (China + 1 strategy):**

As US companies and consumers seek alternatives to Chinese products due to higher

tariffs, India can become a preferred sourcing and manufacturing hub, especially in:

1. Electronics and semiconductors
2. Textiles & apparel
3. Auto components
4. Pharmaceuticals

India can emerge as an attractive alternative due to:

1. Competitive labour cost
2. Large manufacturing base
3. Improving infrastructure and logistics

• **Boost to 'Make in India' & growth in MSME's & local manufacturing:**

Global companies looking to avoid US tariffs may shift parts of their supply chain to India. This supports India's Make in India initiative and enhances domestic manufacturing capacity.

1. MSMEs (Micro, Small & Medium Enterprises) in India can benefit from rising demand for alternative global suppliers.
2. Government initiatives like "Make in India" and "Aatmanirbhar Bharat" align well with this shift, encouraging domestic production to cater to both local and export markets.

• **Export Growth in Specific Sectors:**

1. Electronics and mobile components
2. Pharmaceuticals
3. Chemicals
4. Textiles & garments
5. Automotive parts

• **Enhanced Negotiation Leverage in Trade Deals:**

India can use the global shift in trade to negotiate more favourable trade agreements with the US and its allies, such as:

1. Tariff reduction
2. Mutual recognition of standards
3. Technology cooperation

- **Strategic Opportunity in Clean Tech & Renewable Energy:**

The US is increasingly focusing on green tech and reducing Chinese dependency in solar panels, EV components, etc. India can position itself as a clean-tech supplier by investing in domestic solar cell and battery manufacturing.

The recent increase in US tariffs, particularly targeting imports from China, offers India a timely and strategic opportunity to strengthen its role in the global trade ecosystem.

This shift opens avenues for India to become a preferred alternative for manufacturing, exports, and investment, especially in key sectors such as electronics, pharmaceuticals, textiles, automotive components, and clean energy.

India's initiatives like Make in India, Aatmanirbhar Bharat, and production-linked incentive (PLI) schemes are well-aligned to leverage this global realignment.

Additionally, India can benefit from increased foreign direct investment, deeper bilateral ties with the US, and expansion in emerging areas like rare earths, green technologies, and digital services.

However, realizing the full potential of this opportunity requires addressing critical domestic challenges such as infrastructure bottlenecks, regulatory complexity, and skill development.

With focused policy implementation and continuous reforms, India can position itself as a reliable and competitive player in the shifting global supply chains and secure long-term economic gains.

❖ Compliance Calendar for the month of May 2025

Sr No.	Date	Compliance
1	07-May-25	TDS /TCS Payment
2	07-May-25	ECB-2 Return
3	11-May-25	GSTR-1 (Monthly)
4	13-May-25	IFF, Optional Upload of B2B invoices, Dr/Cr notes under QRMP
5	13-May-25	GSTR-6, ISD return filing
6	15-May-25	ESIC Payment and Return (Monthly)
7	15-May-25	TCS return-27EQ
8	15-May-25	Provident Fund Payment and Return (Monthly)
9	20-May-25	Monthly Payment of Profession Tax (Karnataka)
10	20-May-25	GSTR-3B (Monthly)
11	30-May-25	TDS Returns (Form-24Q, 26Q, 27Q)
12	30-May-25	Annual return with MCA (Form-11) LLP
13	31-May-25	Maharashtra PT monthly Return and Payment
14	31-May-25	SFT (Specified financial transactions) return

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❖ **Special Mention:**

Thank you, **Pranav Mantri, Nikunj Choudhary, Parth Wadkar, Harshada Vaidya** and **Madhur Malpani** for the compilation of this knowledge series.

❖ **RRCO Corner:**

Our team members **Pratik Dangi, Siddhant Jori, and Aditya Zanwar** secured the first prize in the Pitch Deck Competition recently organized by ICAI Pune WICASA.



Congratulations to **Venkatravikiran Adusumilli, Nikita Mundada, and Aryan Raikar** on receiving the Rising Star Award for the quarter ending March 2025.

