

# Exporters breathe sigh of relief on tariff pause

Industry players have adopted a 'wait-and-watch' mode

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There will be relief for some Indian exporters dealing exclusively with the American market because of Washington's decision to temporarily pause reciprocal tariffs for most countries.

On April 2, the United States (US) had announced imposing country-specific reciprocal tariffs, which were to come into force on April 9. With the decision to levy a 26 per cent reciprocal tariff on Indian imports, most American buyers had put orders on hold, forcing exporters to nearly stall production in some cases.

Owing to the sharp rise in the tariff, buyers were seeking deep discounts. On Wednesday, escalating the US-China trade war, American President Donald Trump announced a sharp 125 per cent tariff on all Chinese imports, while reversing the decision on reciprocal tariffs on other countries. The 90-day pause came because, according to Trump, over 75 countries had not retaliated and were in talks with the US.

The pause, and the imposition of a lower 10 per cent tariff from the earlier 26 per cent, will ensure that there will be at least no disruption in production and supply, said Ajay Sahai, director-general and chief executive officer, Federation of Indian Export Organisations.

"Some exporters were almost on the verge of closing down their production because (American) buyers had put orders on hold. They said they will revert in two to three weeks. So now these companies will continue to produce and export to the US, and there will be no disruption in the production," Sahai said.

Exporters said they were in "wait and watch mode", and a reduction in tariff to 10 per cent would bring only temporary relief in certain sectors.

Marine products, labour-intensive sectors such as gems and jewellery, and carpets, among others, were expected to be the worst-hit by the 26 per cent tariff. Gems and Jewellery Export Promotion Council (GJEPC) Chairman Kirit Bhansali said while there would be marginal relief, the segment remained pressured.

"As far as jewellery is concerned, apart from the 6.5 per cent MFN



## READING THE IMPACT

- Relief will ensure no disruption in production and supply
- Some exporters said this is the right time for Indian corporations to revisit their pricing, supply chain, and export strategies
- Only a marginal relief for gems and jewellery segment
- On the flip side, India's exports may face tough competition in markets other than the US

(most favoured nation) tariff, now there will be an additional 10 per cent import tariff. The additional cost will be borne by the supplier and the buyer. The situation is less tricky. It's a bigger challenge for the loose diamonds segment. Ten per cent will result in an additional burden, especially because of the narrow margin in this business," Bhansali said.

With the US imposing more than a 125 per cent tariff on China, exporters say India's northern neighbour will exit the American market, and that is an opportunity as well as a threat for India.

On the one hand, India can attract more investment because companies are expected to move out of China and large global companies will want a further diversification of their supply chains. Reciprocal tariffs are expected to prevent companies from concentrating production in one country to avoid high tariffs, benefiting countries like India, Sahai said.

On the flip side, India's exports may face tough competition in markets other than the US. Reduced demand

for Chinese products in the American market may result in lower prices for Chinese exports. This will make India's attempt to increase exports to other countries more challenging.

Bipin Sapra, tax partner, EY India, said the 90-day pause on reciprocal tariffs offered short-term relief, but the continuation of a flat 10 per cent duty increased the cost of Indian exports to the US and eroded "our tariff advantage" over competitors like Vietnam and Bangladesh.

The US had announced higher reciprocal tariffs on India's neighbouring rivals such as Vietnam, Bangladesh, Indonesia, and Thailand, giving India a tariff advantage over these countries.

Sapra further said this was the right time for Indian corporations to revisit their pricing, supply chain, and export strategies.

That apart, the threat of dumping from China remains. Meanwhile, India set up an inter-ministerial panel to monitor imports hitting domestic shores amid the fear of a diversion of shipment from neighbouring rivals such as China.

India has been alert with respect to any kind of diversion of goods from neighbouring countries and has been keeping a close eye on the imports. There is an institutional mechanism to prevent China dumping goods. The Directorate General of Trade Remedies (DGTR) ensures that an effective anti-dumping system is in place. Another government official said India could take action through the World Trade Organization as and when required. That apart, India can impose a minimum import price to immediately curb a surge in imports.