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# Tariff Realignment and Trade Diversification: Assessing the Impact of the 2025 U.S. Reciprocal Tariff Regime on South Asia's Export Resilience

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***Abstract:*** **The 2025 U.S. reciprocal tariff regime anchored in a baseline 10% duty and surcharges reaching 50% has redefined global trade dynamics, exerting sharp economic and strategic pressures on South Asia's export-oriented economies. Drawing on data from the United States International Trade Commission (USITC), the World Bank, and the Asian Development Bank, this study finds that the U.S.–SAARC trade volume, valued at USD 155.5 billion in 2024, faces contractionary risks of up to 8–12% following tariff escalation. India's exports of machinery, pharmaceuticals, and electronics worth over USD 45 billion now confront tariffs averaging 30–50%, while Bangladesh's apparel sector, generating USD 8.3 billion annually, is subject to duties as high as 37%. Pakistan's textiles, accounting for nearly 60% of its exports to the U.S., face surcharges exceeding 25%, threatening industrial employment and macroeconomic stability.**

**Yet amid these disruptions lies an opportunity for regional renewal. Intra-SAARC trade remains barely 6% of total commerce one-fourth of ASEAN's level despite a combined market of 1.9 billion consumers and over USD 4 trillion in GDP. The study argues that the tariff shock, though destabilizing, can act as a structural catalyst for South Asia's economic resilience by accelerating regional value chain formation, trade facilitation, and institutional cooperation under frameworks such as SAFTA and BBIN. The analysis concludes that the 2025 tariff realignment is not merely a disruption to existing trade flows, but a strategic inflection point urging South Asia to convert adversity into autonomy through deeper regional integration and pragmatic economic diplomacy**.

***Keyword:*** **U.S. Tariffs, South Asia, SAARC, Trade Diversification, Regional Integration, Trade Diversion Theory , Protectionism, Economic Resilience, U.S.–SAARC Trade, Tariff Realignment.**

## I. INTRODUCTION

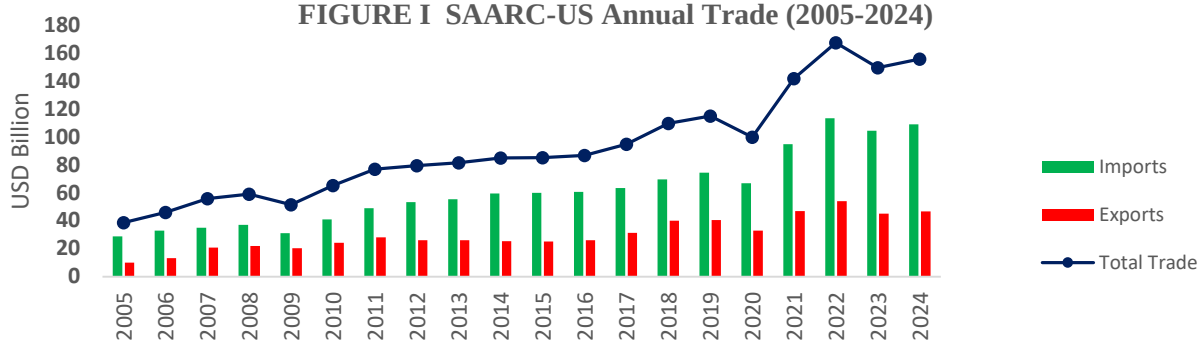
The contemporary global trade environment is undergoing a profound transformation characterized by renewed protectionism, tariff realignments, and disruptions in long-established supply chains. In 2025, the United States reinstated a broad reciprocal tariff regime under the Trump administration, imposing a baseline 10% import duty and country-specific surcharges of up to 50% [1].

This shift marks a decisive departure from the liberal international order that had defined the post–World War II era, signaling a reassertion of economic sovereignty and industrial self-sufficiency among advanced economies. For developing regions such as South Asia, these changes have generated new vulnerabilities while simultaneously creating incentives to recalibrate their trade and industrial strategies.

The South Asian Association for Regional Cooperation (SAARC) comprising Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka has historically relied on Western markets as the principal destination for its

exports. In 2024, trade between the United States and SAARC economies amounted to approximately USD 155.5 billion, a fourfold increase over the past two decades [2]. Figure 1 illustrates the total trade between SAARC and United States of America for the last two decades.

FIGURE I SAARC-US Annual Trade (2005-2024)




While this integration facilitated industrial expansion and export diversification in countries such as India and Bangladesh, it also entrenched a structural dependency that exposed the region to external policy shocks. The 2025 U.S. tariff measures magnified this vulnerability, triggering declines in export revenues, depreciation of local currencies, and job losses across manufacturing sectors.

The immediate consequences of the tariff shock were most visible in labor-intensive industries. Bangladesh, the world's second-largest exporter of ready-made garments, faced a sudden 37% tariff on apparel exports to the U.S., resulting in widespread order cancellations, factory closures, and employment contractions. Similarly, India's machinery, pharmaceutical, and IT-enabled services sectors were subject to tariff surcharges of up to 50%, while Pakistan's textile and leather exports confronted a 29% tariff, later negotiated down to 19% after diplomatic interventions. These disruptions illustrate a fundamental paradox of globalization: economies that had integrated most deeply into global markets under liberal trade regimes now face the steepest adjustment costs amid protectionist retrenchment.

At the macroeconomic level, these shocks precipitated ripple effects across the SAARC region. Export contraction contributed to balance-of-payment pressures, currency depreciation (ranging between 2–4% across major economies), and inflationary spillovers as imported industrial inputs became more expensive.

According to the Asian Development Bank [3], a 10% decline in export earnings due to tariff escalation could translate into a 2–3% GDP contraction for Bangladesh and Pakistan, while India's manufacturing sector output could fall by nearly 1.5%. Such estimates underscore the deep interlinkages between global market access, domestic employment, and fiscal stability within South Asian economies.

Yet, amid these disruptions lies a potential opportunity for structural transformation. Historically, South Asia's intra-regional trade has remained strikingly low hovering around 5–6% of total trade compared to 22–25% in ASEAN and over 60% in the European Union [4]. Despite geographic proximity, shared linguistic and cultural ties, and complementary production structures, SAARC countries trade more with distant partners than with one another. The persistence of this anomaly is attributed to high intra-regional tariffs, weak logistical networks, and political frictions that have impeded regional cooperation.

The current tariff realignment, however, has reignited interest in intra-SAARC diversification as both an economic and strategic necessity. By redirecting exports toward regional markets and fostering local value chains, South Asian economies could mitigate external vulnerabilities and capitalize on latent complementarities in production and demand. The potential gains from such realignment are substantial, [4] estimates that improved trade facilitation and tariff harmonization could expand intra-SAARC trade from approximately USD 40 billion to USD 70 billion annually.

This paper posits that U.S. tariff realignment acts as both a constraint and a catalyst exposing South Asia's dependence on Western markets while simultaneously incentivizing endogenous regional growth. The argument proceeds from the premise that tariff shocks, though disruptive, can induce structural adjustment by prompting firms and governments to explore alternative markets and partnerships. Such a perspective aligns with the evolving literature on trade diversion theory [5] and regional production networks [6], which highlight how trade policies and geopolitical pressures can reshape global supply chains in favor of regionalization.

From a theoretical standpoint, the study draws upon three interrelated frameworks. First, comparative advantage and trade diversion theory provide the analytical lens to assess how tariff distortions alter trade flows between partners. Second, new economic geography [7] and [8] underscores how proximity, scale, and market access influence regional trade clustering.

Third, institutional regionalism [9] highlights the political and institutional mechanisms that determine whether economic potential translates into actual integration. Together, these frameworks facilitate a multidimensional understanding of how South Asia might reposition itself within a fragmented global trade architecture.

The significance of this inquiry extends beyond short-term economic resilience. South Asia represents one-quarter of the world's population, with a rapidly expanding middle class and youthful labor force. As global trade patterns shift toward regional blocs and nearshoring strategies, the region's geographic centrality bordering East Asia, Central Asia, and the Middle East offers unique advantages for cross-regional connectivity. Initiatives such as the BBIN (Bangladesh–Bhutan–India–Nepal) subregional corridor, Chabahar and Gwadar port linkages, and the South Asian Free Trade Area (SAFTA) provide tangible platforms for integration if political and logistical bottlenecks can be addressed.

In this light, intra-SAARC trade diversification is not merely a short-term mitigation strategy but a pathway toward long-term structural transformation. It can enable the creation of regional value chains, foster technology transfer, and support industrial upgrading. However, realizing this potential demands deliberate policy coordination: harmonized tariff schedules, digital trade facilitation, infrastructure development, and trust-building measures among member states. It also requires rethinking SAARC's institutional architecture to move beyond declaratory cooperation toward functional economic integration.

Accordingly, this paper aims to:

1. Analyze the economic impact of the 2025 U.S. tariff realignment on SAARC economies;
2. Evaluate the potential of intra-regional trade as a mechanism for diversification and resilience; and
3. Propose policy interventions to strengthen South Asia's regional integration in the face of shifting global trade dynamics.

## II. LITERATURE REVIEW

The literature on trade shocks, tariff realignment, and regional diversification offers a multi-dimensional understanding of how protectionist shifts in advanced economies reshape the external trade structures of developing regions. This review examines four major strands of scholarship first on the global tariff shocks and supply chain realignment second on the South Asia's dependence on Western markets third on intra-regional trade and South–South cooperation; and finally the catalytic potential of tariff shocks for regional diversification.

Empirically, tariff realignments have been shown to induce supply chain reconfiguration rather than complete deglobalization. [6] argue that the 2018–2022 U.S. China trade conflict accelerated the formation of regional production hubs, as firms diversified supply bases to mitigate exposure to single markets. Similarly, [10] demonstrated that tariff increases often lead firms to substitute imports from penalized partners with goods from untaxed or less-taxed regions, underscoring the role of "trade redirection elasticity."

From a global governance perspective, [11] and [12] highlight that protectionism in the Global North has shifted the global trading order from liberal multilateralism to fragmented regionalism, prompting emerging economies to strengthen South–South networks. The OECD's [11] concludes that regional production networks especially in Asia now account for over 60% of intermediate trade, reflecting a trend toward re-globalization through regionalization rather than outright retreat from globalization.

The policy implications of these studies converge on one point: trade shocks, while contractionary in the short term, can act as structural catalysts in the long term, prompting diversification of trade partners, domestic value addition, and technological upgrading [13]). This dynamic interpretation provides an analytical backdrop for assessing South Asia's responses to U.S. tariffs.

At a structural level, scholars attribute this dependency to limited industrial diversification and value-chain participation.[14] Demonstrate that developing economies exposed to unilateral tariff hikes exhibit a 25% decline in export elasticity, suggesting that over-reliance on external markets amplifies macroeconomic instability. The evidence from the 2025 U.S. tariff regime supports this observation: SAARC economies experienced concurrent depreciation, inflation, and employment losses, highlighting the systemic fragility of export dependence.

While South Asia's dependence on Western markets is well-documented, a growing body of research explores the potential of intra-regional trade and South–South cooperation as alternative growth pathways. [12]and [15] stress that regional economic blocs have historically enhanced resilience by promoting intra-industry trade, currency stability, and investment synchronization. Evidence from ASEAN, MERCOSUR, and COMESA demonstrates that regional trade frameworks can serve as platforms for industrial upgrading, innovation diffusion, and crisis mitigation [16].

Within South Asia, the South Asian Free Trade Area (SAFTA) operational since 2006 has offered a formal mechanism for tariff reduction and trade facilitation. However, its impact remains limited due to asymmetric commitments, exclusion lists, and political tensions. According to [17] fully implementing SAFTA and the South Asian Trade in Services Agreement (SATIS) could increase intra-SAARC trade by US$14 billion annually, primarily through agricultural and light manufacturing exports.

The potential for intra-regional value chains (RVCs) is significant. [18]argues that India could serve as a manufacturing anchor, while Bangladesh, Nepal, and Sri Lanka could contribute labor-intensive production and processing capabilities. Similarly, [6]identify South Asia as a natural candidate for "second-wave regionalization," in which neighboring developing economies coordinate production to capture mid-tier value chain activities displaced from high-cost regions.

From a theoretical perspective, the concept of South–South cooperation is grounded in both dependency theory and post-developmentalism. [9] argue that regionalism in the Global South serves dual purposes: economic self-strengthening and political autonomy from the global North. In this framework, SAARC's underperformance is not simply a function of trade policy but a reflection of broader institutional fragmentation. For South Asia to emulate the success of ASEAN-style integration, it must align its trade agenda with shared developmental objectives rather than purely transactional interests.

Despite these opportunities, structural impediments remain. Scholars such as [14] caution that tariff-induced diversification is not automatic; it requires institutional scaffolding, including trade finance mechanisms, transport corridors, and regulatory alignment. Without such frameworks, diversification efforts risk stagnating at low levels of value addition.

Synthesizing the literature reveals a consistent pattern: while global protectionism threatens the export-dependent growth of South Asian economies, it simultaneously provides an impetus for regional transformation. The comparative advantage framework remains relevant, but its effective application requires institutional and infrastructural modernization. The reviewed studies collectively emphasize that regional integration is not merely a substitute for global markets but an instrument for resilient globalization, wherein economies diversify risk and deepen productive interdependence.

This synthesis underscores the central proposition of the present research: that the 2025 U.S. tariff realignment represents not only a challenge to South Asia's external trade orientation but also a strategic inflection point for fostering intra-SAARC diversification through pragmatic, institutionally grounded cooperation.

## III. METHODOLOGY

This study employs a mixed-method, desk-based analytical design to assess the impact of the 2025 U.S. reciprocal tariff regime on South Asian Association for Regional Cooperation (SAARC) economies, and to explore the potential for intra-regional trade diversification. The approach combines descriptive statistical analysis using official datasets from the United States International Trade Commission (USITC), World Bank, Asian Development Bank (ADB), and Ministries of Commerce of major South Asian countries, with qualitative desk research involving policy reports, regional frameworks, and academic literature. This design enables both quantitative precision and contextual interpretation, ensuring a comprehensive evaluation of how tariff shocks reconfigure trade patterns in South Asia.

The study is anchored in trade diversion theory [5] which posits that the imposition of external tariffs can redirect trade from high-cost to low-cost sources within geographically proximate regions. Building on this foundation, the new economic geography [8], [19] offers insight into how spatial proximity, transaction costs, and infrastructural linkages shape regional industrial clustering. Finally, institutional regionalism theory [9] explains how governance mechanisms, trade facilitation measures, and political trust determine the efficacy of regional integration initiatives such as SAFTA .

Due to limitation of post-tariff escalation long run data, this research is primarily desk-based, relying on triangulation across multiple reputable sources of quantitative and qualitative data. The methodological strength of a desk analysis lies in synthesizing existing evidence from official datasets, trade reports, and peer-reviewed research to generate a comprehensive, policy-relevant assessment without conducting primary fieldwork.

## IV. FINDINGS AND DISCUSSION

Classical and new trade theories alike emphasize the welfare effects of tariffs and their influence on comparative advantage. Early formulations by [5] introduced the concept of trade creation and trade diversion, demonstrating that tariffs can distort market efficiency by reallocating trade flows from low-cost to higher-cost producers. Subsequent theoretical expansions by [7]and [8] incorporated spatial dynamics, showing how geography and proximity determine industrial clustering and trade reorientation under changing trade policies.

The literature consistently identifies external market dependence as a defining vulnerability of South Asia's export-led growth model. Over the past two decades, the region's export portfolio has been dominated by low-technology, labor-intensive goods such as garments, textiles, and leather targeted primarily at the United States and European Union [20]. For instance, Bangladesh derives over 30% of its export earnings from the U.S. market, while India and Pakistan rely heavily on Western demand for their pharmaceuticals, machinery, and textile products [4].

[21]and [17] note that while SAARC economies have achieved significant export growth, they have failed to leverage geographical proximity and shared factor endowments for regional trade. Instead, trade costs within South Asia remain approximately 20% higher than with distant markets such as the EU, primarily due to inadequate transport corridors, non-tariff barriers, and weak customs integration. According to the [20] and [22] intra-regional logistics costs in South Asia are 2.5 times higher than in East Asia, significantly eroding competitiveness.

Recent literature revisits the role of tariff shocks as endogenous triggers for structural change. [13]find that regions in developing economies exposed to import competition or tariff hikes tend to experience a "creative-destruction cycle," where short-term dislocation leads to new investment and industrial upgrading. In this context, tariff shocks can serve as catalysts for import substitution industrialization (ISI) and regional market expansion.

For South Asia, such dynamics are evident in post-2025 trade responses. Several industries, notably textiles, pharmaceuticals, and agricultural products, have begun exploring regional supply chains to offset U.S. tariff exposure. India's pharmaceutical sector, for example, has increased exports to Bangladesh and Sri Lanka, while Pakistan's textile producers are pursuing preferential access within the SAFTA framework. These shifts align with [5]trade diversion theory, suggesting that external protectionism can redirect trade toward more proximate and politically feasible partners.

Empirical assessments further support this hypothesis. The [4] estimates that with moderate policy harmonization and logistics investments, intra-SAARC trade could rise from 5% to nearly 10% of total regional trade within five years. Moreover, [15] projects that establishing digital customs systems and harmonized standards could reduce trade transaction costs by 15–20%, making regional markets increasingly competitive relative to transcontinental exports.

### *A. TRADE TARIFF FRAMEWORK OF THE TRUMP ADMINISTRATION 2025*

In April 2025, the Trump White House introduced a reciprocal tariff framework via Executive Order (April 2) and a September fact sheet outlining implementation. The policy aimed to reduce persistent U.S. goods trade deficits and safeguard economic and national security by using tariffs as strategic tools.

Drawing on authorities such as the International Emergency Economic Powers Act and Section 232 of the Trade Expansion Act, the administration asserted power to adjust tariffs without awaiting congressional approval.

The U.S.–India trade relationship illustrated the framework's rationale. The United States' low average tariffs gave Indian exports especially in pharmaceuticals, IT-enabled services, textiles, gems, and light manufactures broad access to U.S. markets. Meanwhile, U.S. exporters faced tariff peaks, escalation, and non-tariff barriers in India, particularly in agriculture, automobiles, and durable goods.

India's agricultural tariffs, often in the high-30% range, plus quantitative restrictions, shielded domestic producers and food security but severely limited imports of U.S. grains, oilseeds, and nuts. In manufacturing, fully built cars and consumer durables encountered steep tariffs and local-content requirements, while industrial inputs and capital goods were taxed at lower, though still significant, rates. These asymmetries, the administration argued, underpinned the bilateral trade imbalance and justified reciprocal tariff action.

The U.S side applied only a handful of high-profile, security-linked measures most notably the 25 percent steel and 10 percent aluminum tariffs introduced under Section 232 in 2018 which were exceptions to an otherwise liberal tariff structure. Those earlier U.S. security measures complicated negotiation dynamics because they signaled a readiness to use unilateral trade instruments for non-commercial policy objectives, thereby increasing mutual distrust even as both capitals professed an interest in trade cooperation.

Beyond headline tariffs, non-tariff measures (NTMs) were central to market access frictions. India's regulatory landscape sanitary and phytosanitary (SPS) rules, technical barriers to trade (TBT), licensing and registration requirements, price controls for selected medical devices and pharmaceuticals, and opaque public procurement preferences raised compliance costs and delayed market entry.

Negotiation dynamics on the eve of April 2025 therefore resembled classic reciprocal bargaining constrained by domestic politics. India signaled willingness to offer tariff concessions on a circumscribed list of goods while shielding agriculture and core industrial protections.

The United States sought both tariff reductions and deeper reforms of NTMs, offering in return commitments on investment facilitation, government procurement access, and crucially assurances against abrupt unilateral measures.

Each side aimed to sequence concessions so that domestic constituencies would find them tolerable, tariff cuts paired with phased implementation, regulatory cooperation followed by mutual recognition agreements, and trade-plus packages that bundled goods liberalization with services and investment openings.

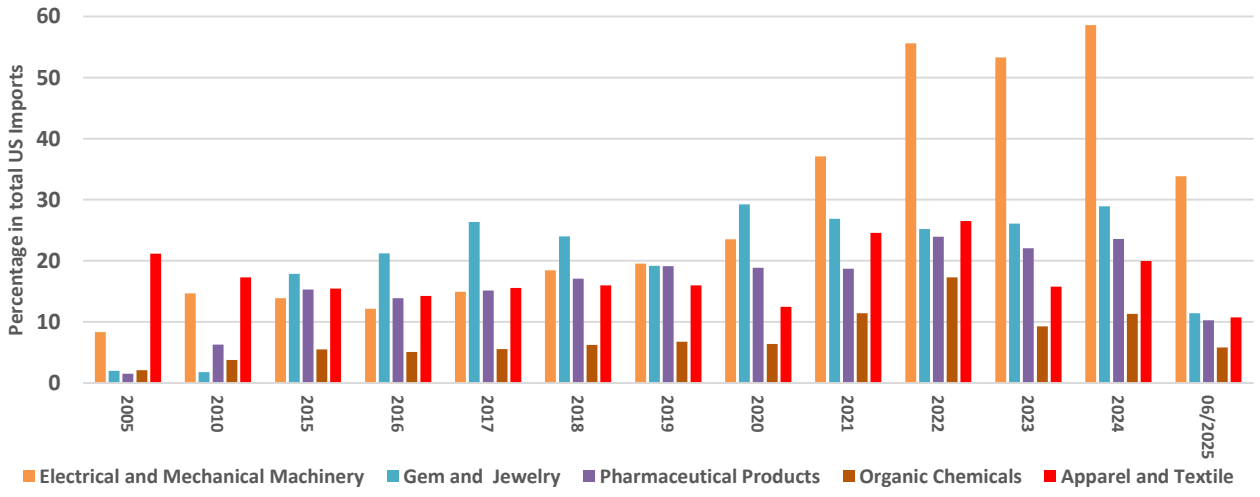
Strategically, the bilateral asymmetry created both risk and opportunity, credible U.S. threats to employ unilateral reciprocal tariffs or other restraints raised the prospect of escalation that could harm both economies and supply chains. While offering an opportunity for sector-sensitive packages including reductions in duties on intermediate goods, transparent reform of SPS/TBT regimes, and binding commitments in targeted sectors may unlock meaningful commercial gains while preserving domestic policy space for politically sensitive areas.

In conclusion, the pre-April 2, 2025 U.S India tariff regime was defined not only by numeric differences in applied tariffs but by a layered set of economic and political constraints that shaped bargaining behavior. India's relatively high tariffs and extensive NTMs were anchored in legitimate development and political objectives. Whereas the United States' low average tariffs but willingness to deploy unilateral measures for security or balance-of-payments reasons raised the stakes of bilateral talks.

### *B. INDIA'S MAJOR EXPORTS TO THE UNITED STATES UNDER NEW TARIFF REGIME*

From 2005 to 2025, India's exports to the United States shifted sharply from traditional goods to high-value, technology-driven sectors. Electrical and mechanical machinery rose from 8.3% of exports in 2005 to nearly 59% in 2024, driven by India's growing role in global value chains and U.S. firms' "China + 1" diversification after 2020. Pharmaceuticals expanded from 1.5% to over 23% during the same period, reflecting India's emergence as a leading producer of generics, APIs, and vaccines, especially post-COVID-19. Figure II portray the dramatic shift of India's top five export to US form 2005, to 2025.

**Figure II: Percentage Change In Top Five Exports Of India To US**




Conversely, apparel and textiles fell from over 21% in 2005 to under 11% by mid-2025, due to competition from Bangladesh and Vietnam and India's policy shift toward advanced manufacturing. Gems, jewelry, and organic chemicals grew intermittently but remained secondary. Overall, India's export structure now reflects industrial upgrading, technological capacity expansion, and deeper integration with advanced manufacturing networks.

### *1) Electrical Machinery and Equipment (HS Code 85)*

Electrical machinery has emerged as one of India's fastest-growing export sectors to the United States, showing a remarkable expansion from only 0.76 billion USD in 2002 to 15.23 billion USD in 2025 . This growth is the most dramatic among the analyzed sectors and reflects India's growing integration into global electronics and high-technology supply chains.

The average export value over the twenty-two-year period is approximately 4.6 billion USD, but the moving average trend line reveals that growth remained subdued until around 2015 before accelerating sharply between 2018 and 2023.

This acceleration coincides with major shifts in both domestic policy and international trade dynamics. Domestically, India launched the "Make in India" initiative in 2014, which prioritized electronics manufacturing and attracted substantial foreign direct investment into sectors such as mobile phone assembly, consumer electronics, and semiconductor components. Internationally, the US-China trade war, beginning around 2018, had significant spillover effects, American firms seeking alternative suppliers increasingly turned to India and Vietnam.

As China faced tariffs and restrictions on technology exports, India benefited as a secondary electronics assembly hub. Consequently, India's exports to the US in electrical machinery rose from just 3.5 billion USD in 2017 to 15 billion USD by 2025 an unprecedented surge that indicates structural repositioning rather than cyclical fluctuation.

India's exports of machinery and electronic equipment have developed a broad and diversified base. Following the United States, the European Union stands as the second-largest importer of Indian electronic equipment. In 2024 alone, the EU imported over USD 12 billion worth of such products from India, while the Middle East accounted for an additional USD 7.7 billion in imports. Despite this strong performance, there remains a substantial untapped export potential of approximately USD 15 billion across these two regions comprising USD 10 billion with the EU and USD 5 billion with the Middle East.

Within South Asia, India's exports of machinery and electronic equipment currently total around USD 3.8 billion, with an unrealized potential of USD 1.5 billion. Bangladesh and Nepal, in particular, present promising opportunities Bangladesh alone holds an estimated USD 800 million worth of additional export potential, while Nepal's potential is valued at USD 500 million.

India is presently the third-largest exporter of machinery and electronic equipment to Bangladesh, with exports exceeding USD 2.3 billion, following China and Hong Kong. This indicates a strong foothold but also underscores ample room for India to further expand its market share in Bangladesh, as well as in Sri Lanka and Nepal.

With continued trade facilitation, improved connectivity, and targeted market engagement, India is well-positioned to strengthen its role as a key supplier of advanced machinery and electronic goods across South Asia, the Middle East, and Europe.

### *2) Pharmaceutical Products (HS Code 30)*

India's pharmaceutical exports to the U.S. rose from USD 0.29 billion in 2005 to USD 12.7 billion in 2024 a fiftyfold increase that reflects the country's rise from bulk-drug supplier to a global producer of affordable generics. The average export value over 2005–2025 was USD 5.8 billion with a standard deviation of USD 3.4 billion, indicating steady but uneven growth shaped by patent cycles and regulatory changes.

Between 2005 and 2015, the U.S. absorbed 30–35% of India's total pharma exports, supported by India's cost advantage, FDA compliance, and production clusters in Hyderabad, Baddi, and Ahmedabad. Growth slowed 2017–2021 amid the post-patent-cliff downturn and tighter FDA oversight, but COVID-19 reaffirmed India's role as the "pharmacy of the world." After 2021, exports rebounded as U.S. buyers diversified away from China and Europe, though a 2018–2025 plateau shows maturing markets and price pressures from PBM consolidation and biosimilar competition.

A major risk emerged in 2025, when the Trump administration imposed a 100% tariff on branded and patented drugs from nations without U.S. plants. Although generics were exempt, blurred definitions threaten roughly 34% of India's pharma exports (≈ USD 10.5 billion). If only 20% of that trade is affected, losses could reach USD 2 billion annually. Compounding this, India imports 70% of its APIs from China, exposing it to both U.S. demand shocks and upstream supply risks.

Strategically, India's export model is shifting from volume-driven generics to value-added biosimilars and advanced formulations. To reduce vulnerability to unilateral U.S. actions, India must diversify toward Europe, Africa, and Latin America (currently USD 13 billion in exports, with USD 5–6 billion untapped potential) and deepen South Asian value

chains, where trade already totals USD 2.1 billion. The journey from USD 0.29 billion in 2005 to USD 12 billion in 2025 thus marks both a milestone in industrial capacity and a caution against single-market dependence.

***3) Precious Stones and Metals (HS Code 71)***

India's exports of precious stones, jewelry, and metals (HS Code 71) have long been central to its trade with the U.S., symbolizing craftsmanship and foreign exchange strength. Exports rose from USD 5.03 billion in 2005 to USD 15.86 billion in 2017, before declining to USD 8.22 billion in 2024 a 48% fall from the peak. The long-term mean of USD 8.96 billion and standard deviation of USD 3.22 billion reveal high volatility tied to global luxury demand and U.S. consumption trends.

From 2005–2015, gems and jewelry made up 25–30% of India's exports to the U.S., anchored in hubs such as Surat, Mumbai, and Jaipur. Post-2017, exports weakened as ethical sourcing, minimalist trends, and the rise of lab-grown diamonds (whose share of the U.S. retail market jumped from 2% in 2016 to 12% in 2023) eroded India's edge. Technological advances in Israel, Belgium, and China further reduced competitiveness, with India's average per-carat value dropping from USD 1,015 in 2018 to USD 870 in 2023, despite a 12% rupee depreciation.

Trump-era tariffs of 10–15% on finished jewelry and diamonds under the Trade Expansion Act compounded pressures, potentially cutting exports by 8–10% annually. India's U.S. diamond market share fell from 42% in 2016 to 31% in 2023, as rivals like China, Thailand, and Botswana gained ground. The sector's share of total Indian exports to the U.S. plunged from 28% in 2010 to below 11% in 2023, while pharmaceuticals, machinery, and IT services surged to over 40% by 2024 signaling a structural shift toward technology-driven trade.

To offset U.S. losses, India should diversify exports to South and Southeast Asia. Potential gains include USD 0.5–0.8 billion annually in Bangladesh, USD 0.3–0.5 billion in Sri Lanka, and USD 0.15–0.35 billion in Nepal, alongside expanded presence in Singapore and Thailand, where India holds less than 8% of a USD 6 billion market. The UAE, absorbing 22% of India's global gem exports in 2024, remains vital under the CEPA framework.

The sector now faces a turning point its competitiveness will hinge on technology adoption, compliance modernization, and diversified market engagement within a rebalanced, innovation-oriented export model.

***4) Machinery and Mechanical Appliances (HS Code 84)***

India's exports of machinery and mechanical appliances to the U.S. have shown consistent medium-technology growth over two decades, rising from USD 0.72 billion in 2005 to USD 6.79 billion in 2025 a nearly tenfold increase reflecting deeper integration into capital-goods supply chains. The long-run mean of USD 2.99 billion, standard deviation of USD 1.93 billion, and range of USD 6.07 billion indicate steady expansion with manageable volatility. This mirrors India's broader engineering-goods boom, with engineering exports reaching USD 106 billion in 2024–25, confirming machinery as a stable contributor to export earnings.

Growth accelerated after 2012, supported by rising industrial investment and movement into medium-technology segments such as renewable-energy equipment, automation systems, and industrial components for U.S. infrastructure and manufacturing. The median annual export level of USD 2.35 billion shows broad-based structural progress, enabled by targeted industrial policies, capital formation in machinery clusters, and improved standards compliance.

However, the U.S. tariff hikes reaching up to 50% by late 2025 pose significant risks, raising landed costs and reducing competitiveness against domestic and Asian suppliers. These tariffs could impact 50–55% of India's total merchandise exports to the U.S., with machinery among the most exposed categories.

To mitigate this, India must diversify export markets through a dual approach: expanding within South Asia and penetrating Southeast Asia, the Gulf, Africa, and the EU. Proximate South Asian markets such as Bangladesh, Sri Lanka, and Nepal offer quick gains in pumps, turbines, and construction equipment, potentially adding USD 0.5–1.0 billion in exports within 2–3 years through trade facilitation and concessional finance. Nepal's hydropower projects and Bangladesh's infrastructure growth provide natural opportunities, sustaining clusters in Gujarat, Maharashtra, and Tamil Nadu. Beyond the region, Vietnam and Thailand expanding in electronics and automotive supply chains present scope for Indian pumps, control panels, and precision machinery.

Effective diversification will require faster trade facilitation, duty-free capital goods corridors, enhanced export finance and insurance, and product upgradation with ISO, API, and IEC certifications. India should also leverage diplomatic channels to secure mutual recognition of standards and sectoral trade pacts that reduce non-tariff barriers, enabling smoother re-routing and sustaining export momentum amid the shifting global tariff landscape.

### *5) Organic Chemicals (HS Code 29)*

India's exports of organic chemicals to the United States reflect a steady and disciplined expansion of industrial capacity. Rising from USD 0.64 billion in 2002 to USD 3.76 billion in 2023, these exports now form a vital pillar of India's USD 20.7 billion global chemical trade (2024). This growth highlights the increasing sophistication of India's chemical sector, built upon strengths in process chemistry, cost-efficient synthesis, and large-scale manufacturing. India's emergence as a preferred supplier was further accelerated by China's environmental restrictions, which curtailed global supply and opened new market space for Indian producers.

## *C. BANGLADESH'S MAJOR EXPORTS TO THE UNITED STATES UNDER NEW TARIFF REGIME*

Bangladesh's exports to the United States records a clear expansion in scale and a modest acceleration in structural diversification. Aggregate exports rose from USD 5.28 billion in 2014 to USD 8.36 billion in 2024, an absolute increase of USD 3.08 billion and an annualized compound growth rate of about 4.7 percent.

Over the decade the its exhibits moderate cyclical volatility, the standard deviation of annual observations being USD 1.68 billion and the coefficient of variation roughly 24 percent, reflecting episodic swings around an underlying upward trend, most visibly the sharp uplift into 2021–2022 and the partial correction thereafter.

Disaggregation by HS group shows that apparel remains the dominant engine of bilateral sales, but its internal composition is shifting. "Articles of apparel and clothing accessories, not knitted or crocheted" accounted for USD 4.56 billion in 2024, up from USD 3.50 billion in 2014.

This sub-sector expanded in absolute terms by about USD 1.06 billion over the decade, but its growth rate has been modest relative to other segments, with a 10-year CAGR of approximately 2.7 percent. Its share of total exports fell from about 66.3 percent in 2014 to roughly 54.5 percent in 2024, indicating some loss of dominance even as it remains the single largest line item.

By contrast, "articles of apparel and clothing accessories, knitted or crocheted" demonstrated faster expansion, rising from USD 1.20 billion in 2014 to USD 2.50 billion in 2024, an absolute gain of about USD 1.30 billion and a 10-year CAGR of roughly 7.6 percent. Its contribution to the export mix increased from about 22.7 percent to almost 29.9 percent, a clear signal of product upgrading and capacity growth in knitwear and related fast-fashion segments which can often scale quicker and penetrate new U.S. market niches.

The two smallest categories in absolute value, prepared feathers and down, and articles of leather and travel goods, posted the highest relative gains because of their low bases. Prepared feathers rose from about USD 0.025 billion to USD 0.126 billion, and leather articles increased from USD 0.021 billion to USD 0.100 billion,

Year-to-year dynamics are revealing of both demand shocks and supply adjustments. Total exports jumped markedly to USD 8.29 billion in 2021 and then to USD 11.15 billion in 2022 before falling back to the high single digits in 2023 and stabilising around USD 8.36 billion in 2024, suggesting temporary pandemic-era reallocation of orders, inventory smoothing, or one-off contract flows that later normalized. The knitted apparel segment was a major beneficiary of the 2021–2022 surge, which is consistent with global re-sourcing trends and buyers shifting orders to resilient suppliers during supply-chain disruptions.

**TABLE I. VOLUME OF MAJOR EXPORTS OF BANGLADESH TO US 2014-2025 ( BILLION USD)**

| Articles | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 06/2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Apparel (Not Knitted Or crocheted) | 3.50 | 3.81 | 3.77 | 3.52 | 3.76 | 4.10 | 3.48 | 4.29 | 6.14 | 4.63 | 4.56 | 2.71 |
| Apparel (Knitted Or Crocheted) | 1.20 | 1.45 | 1.37 | 1.37 | 1.48 | 1.63 | 1.62 | 2.58 | 3.15 | 2.30 | 2.50 | 1.36 |
| Headgear And Parts Thereof | 0.13 | 0.15 | 0.17 | 0.18 | 0.18 | 0.21 | 0.18 | 0.29 | 0.47 | 0.39 | 0.32 | 0.21 |
| Footwear, Gaiters | 0.07 | 0.11 | 0.10 | 0.10 | 0.13 | 0.16 | 0.14 | 0.27 | 0.43 | 0.22 | 0.24 | 0.17 |
| Textile | 0.19 | 0.21 | 0.21 | 0.22 | 0.22 | 0.20 | 0.24 | 0.31 | 0.31 | 0.19 | 0.18 | 0.11 |
| Prepared Feathers | 0.03 | 0.04 | 0.04 | 0.05 | 0.07 | 0.08 | 0.10 | 0.14 | 0.14 | 0.13 | 0.13 | 0.07 |
| Articles Of Leather | 0.02 | 0.04 | 0.06 | 0.07 | 0.06 | 0.07 | 0.06 | 0.08 | 0.11 | 0.09 | 0.10 | 0.06 |

Before 2025, Bangladesh's exports to the United States dominated by apparel and clothing accessories benefited from a relatively stable tariff regime under the U.S. Most-Favoured-Nation schedule. Average effective duties hovered around 15 percent for woven and knitted garments, and slightly lower for footwear, leather goods, and accessories.

This predictable environment allowed Bangladeshi exporters to leverage economies of scale, competitive labor costs, and long-term supply contracts with U.S. retailers. Between 2014 and 2024, exports of apparel and clothing accessories, both knitted and non-knitted, rose from roughly USD 4.7 billion to more than USD 8.3 billion, reflecting an average annual growth of nearly 6.5 percent.

Other categories, such as footwear and leather goods, grew more modestly but showed steady diversification into higher-value segments, with apparel and textile articles accounting for nearly 90 percent of Bangladesh's total exports to the U.S. by 2024.

The new U.S. tariff hike under the Trump administration's 2025 trade recalibration poses serious economic challenges for Bangladesh's export-dependent economy, particularly for its apparel and related sectors which account for over 85 percent of total exports to the United States. The apparel and textile complex, encompassing both knitted and non-knitted clothing, footwear, leather goods, and headgear, is highly vulnerable to tariff-induced cost escalations because it operates on thin profit margins and depends heavily on U.S. buyers for demand stability.

The non-knitted apparel and clothing accessories segment, Bangladesh's largest export category to the U.S., valued at around USD 4.55 billion in 2024, faces the steepest hit. With an additional 20–37 percent tariff, the landed price of woven garments such as shirts, trousers, and jackets rises sharply, eroding Bangladesh's competitive edge relative to Vietnam, Cambodia, and Mexico.

An increase is projected to contract export volumes by 8 to12 percent in 2025, according to trade elasticity estimates (assuming a price elasticity of -1.0). As U.S. retailers recalibrate sourcing, orders are likely to shift toward tariff-exempt or low-tariff partners within trade blocs such as USMCA (Mexico) and CPTPP (Vietnam).

The knitted apparel sector, worth USD 2.49 billion in 2024, is similarly exposed but may show slightly greater resilience because of its diversified customer base and stronger backward linkages in yarn and fabric production.

Nevertheless, higher tariffs will push Bangladesh's average export unit price up by 15–18 percent, diminishing its low-cost appeal. Small and medium-scale exporters, who rely on short-term contracts, are likely to experience the brunt of the contraction, with potential layoffs and factory slowdowns in Dhaka and Chittagong.

For footwear and leather goods, which collectively totaled USD 0.34 billion in 2024, the impact will be moderate but still meaningful. U.S. tariffs on leather products and footwear could rise from 10 to 12 percent to nearly 25 to 28 percent, making Bangladeshi products less attractive to mid-range U.S. buyers. However, these sectors have greater potential for market diversification. Bangladesh can redirect exports toward regional and near markets where tariff regimes are more favorable and consumer demand is growing.

In South Asia, countries like India, Sri Lanka, and Nepal represent underexploited destinations for Bangladeshi textile and footwear exports, supported by SAFTA's preferential duty structures. Bangladesh's garment exports to India currently stand at less than USD 0.8 billion, but analysts project this figure could double to USD 1.6 billion by 2027 if exporters tap into the growing Indian retail sector and e-commerce apparel platforms such as Myntra and Flipkart. Similarly, Nepal and Bhutan offer opportunities for higher-end apparel and accessories, aided by simplified logistics under BBIN connectivity corridors.

Beyond South Asia, Southeast Asia and the Middle East provide natural diversification channels. The United Arab Emirates, Saudi Arabia, and Malaysia, where Bangladeshi migrant communities and established trade networks exist, offer rapidly growing retail markets for mid-range clothing and footwear.

In summary, Trump's tariff escalation marks a turning point for Bangladesh's U.S.-oriented export model. While the apparel and footwear sectors will face immediate revenue contraction and potential job losses, strategic diversification toward South Asian, ASEAN, and Gulf markets, combined with investment in higher-value textile production and branding, can mitigate medium-term losses. Bangladesh's policy response must therefore emphasize export market diversification, trade facilitation through regional corridors, and negotiation of bilateral preferential trade agreements to preserve its export-driven growth trajectory in a post-tariff world.

The United States absorbs 15–18% of India's organic chemical exports, valued at about USD 3.6 billion annually. However, the proposed 25–30% U.S. tariff hike could slash Indian exports by USD 1.0–1.2 billion per year, a 30% contraction that would compress margins, disrupt long-term contracts, and slow investment in key clusters such as Gujarat and Maharashtra. At the macro level, such a tariff shock would weigh on India's trade surplus and dampen export-led manufacturing growth, given the chemical sector's extensive backward linkages across industry.

To cushion these risks, India must diversify beyond the U.S. by expanding into South Asia and ASEAN markets. Bangladesh, already importing USD 370–380 million of Indian chemicals annually, could boost purchases by 30–50% within 2–3 years, adding USD 0.1–0.2 billion in new trade. Sri Lanka and Nepal together offer another USD 0.1–0.2 billion in short-term potential, driven by growth in agrochemicals and industrial intermediates. In the medium term, Vietnam, Thailand, and Indonesia with rising demand for specialty chemicals could generate USD 1–2 billion in new exports within five years. Broader outreach to Africa and Latin America could add long-term resilience, allowing India to recover up to USD 3.0 billion in lost revenue through regional trade realignment.

### *D. PAKISTAN'S MAJOR EXPORTS TO THE UNITED STATES UNDER NEW TARIFF REGIME*

Pakistan's total exports to the United States between 2014 and mid-2025 show a pattern of moderate but steady expansion, followed by a period of volatility in recent years. In 2014, exports stood at USD 3.68 billion, maintaining relative stability through 2016–2018, averaging around USD 3.6–3.9 billion.

This steady phase reflects a period of sustained demand for Pakistani textiles, apparel, and leather goods, which together accounted for nearly 28 percent of total exports to USA. Statistical analysis indicates a mean export value of USD 4.24 billion over the 2014 to 2025 period, with a standard deviation of approximately 0.97, suggesting moderate variation consistent with global demand cycles and exchange rate adjustments.

Pakistan's sectoral exports to the United States from 2014 to mid-2025 reveal a clear pattern of concentration, with textiles particularly apparel remaining the dominant contributor to bilateral trade. The aggregate textile exports (inclusive of apparel, cotton, yarn, and related items) averaged around USD 1.42 billion per year, showing a gradual upward trend from USD 1.35 billion in 2014 to a post-COVID peak of USD 1.68 billion in 2021–2022, before moderating slightly to USD 1.46 billion in 2024 and USD 0.73 billion by mid-2025.

Within the textile complex, apparel both knitted and non-knitted accounts for over 80 percent of exports. Knitted apparel rose from USD 0.96 billion in 2014 to a peak of USD 1.63 billion in 2022, representing a compound annual growth rate (CAGR) of nearly 5.2 percent. However, the subsector has shown heightened sensitivity to external shocks, dropping to USD 1.13 billion in 2023 and USD 0.58 billion in the first half of 2025.

This reflects both seasonal fluctuations and the early impact of higher tariffs under U.S. trade protectionism in 2025, which have increased the landed cost of Pakistani garments by an estimated 15 to 18 percent, eroding cost competitiveness against suppliers in Vietnam, Cambodia, and Mexico.

Non-knitted apparel, meanwhile, has followed a similar pattern but with slightly steadier performance. The sector has benefited from Pakistan's strong cotton base and integrated spinning-to-stitching capacity.

The cotton and yarn category is one of significant component of the export basket. From USD 0.12 billion in 2014, exports peaked at USD 0.22 billion in 2022 before moderating to USD 0.19 billion in 2024. The sector's limited growth reflects a structural shift in Pakistan's export composition from raw materials toward finished apparel. However, its strong correlation with global commodity prices means it remains a key driver of export volatility.

Similarly, leather and leather goods, which averaged around USD 0.14 billion annually, have shown gradual improvement over the decade rising from USD 0.11 billion in 2014 to USD 0.21 billion in 2022 supported by rising demand for gloves and accessories during the pandemic years.

Escalation of U.S. tariffs under the Trump administration would likely have a significant contractionary effect on Pakistan's export economy, particularly in labor-intensive sectors such as textiles, leather, and apparel. These categories represent more than 60 percent of Pakistan's total exports to the United States, valued at approximately USD 1.39 billion annually over the past decade.

At the microeconomic level, such tariff shocks could ripple through Pakistan's textile value chain, where margins are thin and production cycles depend on high-capacity utilisation. Export-oriented mills would face cost compression, delayed

orders, and potential layoffs. With approximately 40 percent of Pakistan's industrial labour force employed in textile and apparel production, a decline of this scale could translate into thousands of job losses and reduced household incomes in export-dependent districts such as Faisalabad, Karachi, and Lahore.

In trade dynamics, a key adjustment pathway lies in market diversification. While the U.S. remains an anchor destination, Pakistan has untapped export potential in regional and emerging markets, estimated at USD 2 to 3 billion across South Asia, the Gulf, and Southeast Asia. India, Bangladesh, and Sri Lanka present viable alternatives due to rising middle-class consumption and growing demand for intermediate textile goods.

The Gulf Cooperation Council (GCC) region, led by the UAE and Saudi Arabia, could absorb an additional USD 0.3 billion in textile and leather exports annually given its strong import dependency and retail expansion. Similarly, Vietnam, Malaysia, and Indonesia in ASEAN offer medium-term opportunities through supply-chain complementarities in garments and synthetic fabrics.

However, capitalizing on these opportunities requires structural adjustments. Pakistan's exporters must improve product sophistication, comply with environmental and labour standards, and invest in digital trade infrastructure. Government facilitation is equally vital through export finance, preferential trade agreements, and logistics reforms to counterbalance U.S. market losses.

Empirical evidence suggests that countries that swiftly reallocate exports to regional blocs after tariff shocks recover 60–70 percent of lost revenues within 3–5 years. For Pakistan, strategic reorientation toward South-South trade and intra-Asian supply integration may therefore serve as a long-term stabilizer, mitigating the impact of U.S. protectionism while deepening regional economic interdependence.

This analysis underscores that the tariff escalation is not merely a bilateral trade disruption but a catalyst for structural realignment. If leveraged intelligently, it could push Pakistan to diversify its export geography, climb the value chain, and reduce dependency on a single external market. Yet, without proactive policy and industrial adaptation, the tariff-induced shock could reinforce Pakistan's vulnerability to external demand shifts and undermine its broader export-led growth trajectory.

## V. CONCLUSION

The U.S.-SAARC economic partnership, while robust and growing, stands at a critical juncture. The analysis presented in this report reveals a relationship defined by deep interdependence, structural asymmetries, and a newfound vulnerability to geopolitical and protectionist trade policies. The Trump administration's 2025 reciprocal tariff framework represents a paradigm shift, moving the relationship from a state of managed imbalance to one of potential disruption and forced realignment.

The core of the U.S.-SAARC trade dynamic is its pronounced asymmetry. The United States runs a persistent and growing trade deficit, which exceeded USD 62 billion in 2024, driven by its consumer market's insatiable demand for affordable goods, particularly apparel and textiles. Conversely, SAARC nations, led overwhelmingly by India, depend on the U.S. as a primary export destination for revenue, foreign exchange, and industrial employment. This relationship has historically been complementary, the U.S. benefited from price stability and diversified supply sources, while SAARC nations leveraged their cost competitiveness to fuel export-led growth.

However, the 2025 tariff regime fundamentally challenges this symbiosis. The punitive tariffs, especially the 50% levy on key Indian imports, are not merely corrective economic instruments but tools of geopolitical coercion, as evidenced by the explicit linkage to India's energy purchases from Russia. This politicization of trade policy introduces a high degree of uncertainty and risk into the relationship, threatening to unravel supply chains that have matured over two decades.

India's hard-won gains in high-value exports like electrical machinery notably smartphones and pharmaceuticals are at immediate risk. The erosion of price competitiveness could lead to significant export contraction, jeopardizing the success of its "Make in India" initiative and its strategic positioning in the "China+1" supply chain diversification.

Bangladesh's and Pakistan's export economies, heavily reliant on apparel and textiles, face severe margin compression and order diversion. Their labor-intensive models, built on thin profits and scale, are exceptionally vulnerable to tariff hikes, with direct implications for employment and economic stability.

The smaller SAARC nations, while less significant in trade volume, will face collateral damage, seeing their niche exports become less competitive and their diplomatic relevance tested.

In response to these challenges, strategic diversification is no longer an option but an economic imperative. The report clearly identifies a viable pathway for resilience through a reorientation towards regional and South-South trade. India, Bangladesh, and Pakistan possess substantial untapped export potential within South Asia, the Middle East, ASEAN, and Africa.

Deepening regional economic integration through improved logistics, trade facilitation, and harmonized standards can create a buffer against external shocks. For India, in particular, leveraging its regional stature to boost machinery, electronics, and pharmaceutical exports to neighbors like Bangladesh, Nepal, and Sri Lanka offers a pragmatic short-to-medium-term strategy to offset U.S. market losses.

Finally, the tariff escalation underscores a critical evolution in the nature of the partnership. Trade is now inextricably linked to broader strategic and diplomatic considerations. The U.S.'s use of trade measures to enforce foreign policy objectives signals a move towards a more transactional and leverage-based relationship. For SAARC nations, this necessitates a recalibration of their own economic diplomacy, prioritizing resilience, self-reliance and a diversified portfolio of international partnerships.

In conclusion, the U.S.-SAARC trade relationship is entering a new, more volatile phase. The tariffs of 2025 act as a forcing function, compelling a structural reassessment on both sides. While they pose a significant threat to the established order, they also present an opportunity, to reduce over-dependence, foster greater regional integration, and build a more balanced and sustainable economic partnership for the future. The trajectory ahead will be determined by the agility of policymakers and the private sector in navigating this complex landscape of economic interests and geopolitical realities.

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