

America's Section 301 probes of Indian industries should fall flat

Baseless charges levelled by the US must be countered effectively to fend off this new tariff threat



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The randomness of Donald Trump's tariffs has underscored that a state of flux for businesses is the only constant. That this has been inflicted by one of the chief architects of the World Trade Organization (WTO)'s rules of global trade is ironic, as it has left us with this mockery of a rules-based order.

Last April, the US President alleged that foreign trade and economic practices had created a national emergency and imposed tariffs across imports from all countries. Ten months later, the US Supreme Court ruled that they were unlawful. Soon after, Trump threatened other "powerful alternatives" and imposed a 10% tariff on all imports on the ground that the US had a balance-of-payment crisis. This action too has no legal basis and 24 US states have challenged it in US courts.

Meanwhile, Section 301 proceedings under the US Trade Act have been initiated. These empower the US Trade Representative (USTR) to investigate the 'unfair trade practices' of other countries. One initiated move alleges "structural excess capacity and production in manufacturing sectors" while another is on the "failure to impose and effectively enforce a prohibition on the importation of goods produced with forced labour." India has been named in both, along with other countries.

India has faced Section 301 proceedings before with respect to intellectual

property and its digital services tax, but these did not result in any punitive unilateral US tariffs. From 1995 till 2017, when Trump first took office, the US used its Section 301 proceedings as a complement to WTO dispute settlement. That is no longer the case.

Section 301 proceedings are like an open-for-all. Written comments are due by mid-April and a public hearing is scheduled for 28 April. Submissions and counters will be part of the public record. In parallel, government-to-government negotiations will go on.

While Trump has not minced words on what he sees as a forgone conclusion of the probes, Indian industry should get active, seeking support from US importers to highlight how tariffs hurt American consumers as well as businesses.

The Section 301 notice alleges that India has excess capacity in solar modules, steel, petrochemicals, textiles, health and unspecified "other industries." The USTR's reasoning rests on India's \$42 billion goods trade surplus with it, overlooking the fact that the US runs a services surplus with India.

Let us examine the sectors cited. In steel, India's annual production of about 152 million tonnes broadly tracks domestic demand, and it has been a net importer over the last three years. Its about 200 million tonne capacity is consistent with long-gestation investments to meet future needs. Capacity for future demand cannot be built overnight.

Construction goods show a similar pattern: cement output of about 450 million tonnes is mostly absorbed domestically, with per-capita consumption (of about 290kg) far below the global average (about 550kg); prospective capacity expansion (to about 650 million tonnes) aligns with internal growth and would not leave a surplus for export. While a few segments such as ceramics may exhibit large export volumes, India's broader construction materials ecosystem is clearly driven by local demand.

In solar modules, the increase in

installed capacity cannot be seen in isolation. Key drivers for this include India's net-zero pathway (with a target of 500GW of non-fossil fuel capacity by 2030) and policy mandates like Renewable Consumption Obligation aimed to boost domestic consumption, rather than export ambitions alone. While the US is a key importer of Indian modules, India's -7% share in America's overall imports is modest and their cost is pushed up by the US's non-China sourcing trade mandate.

Petrochemicals undercut the surplus narrative too: Indian capacity is 52.3 million tonnes, production 42.1 million tonnes and domestic consumption about 52.5 million tonnes; imports fill the gap.

The "excess capacity" charge is unpersuasive even in export-oriented sectors. In pharmaceuticals, India accounts for about 20% of global volumes but only 3-4% of value (versus the 45% US share), consistent with a generics-led model that complements rather than displaces the US patented-drug market. India is also largely import dependent in medical equipment, with the bulk coming from the US. In textiles, exports of \$37-38 billion versus \$9-10 billion of imports translate to just 3.9% of global exports, far below China's 34% figure (and below Vietnam's and Bangladesh's too). In the auto sector, domestic demand absorbs 25-26 million vehicles; exports are about 5.4 million (16% of output), largely to units of foreign companies that use India as a node in global supply chains.

Businesses typically align investments with demand projections. That is common sense, not an unfair practice. Moreover, the sectors targeted are not monolithic. Painting diverse product segments with a single 'excess capacity' brush obscures segment-wise dynamics.

The government needs to work closely with Indian industry to contest America's absurd claims. Hard facts and clear legal and economic logic could help achieve equitable outcomes.

These are the authors' personal views.