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## Turning Costs into Strategy: How Indian Exporters Can Respond to Rising U.S. Tariffs

The recent escalation of tariffs in the United States has unsettled global trade patterns, particularly for export-oriented economies like India. While tariff hikes were directed mainly at Chinese products, their ripple effects were felt across value chains and competing suppliers. This article discusses the nature of tariffs, their impact on Indian exporters, and how Management Accounting techniques, specifically Cost Segregation, Contribution Margin (CM), and Break-Even Point (BEP) analysis, can help firms evaluate

whether to sustain their presence in the U.S. or pivot to alternative markets. Drawing on India's preferential trade agreements, the article identifies regions such as the Middle East, Australia, and ASEAN as viable destinations where tariff relief, shorter logistics, and indirect cost savings could preserve competitiveness.

### Introduction

In recent years, tariffs have re-emerged as a potent policy instrument in the global economy. The United States, long regarded as a champion of free trade, has increasingly used tariffs to protect strategic sectors. For Indian exporters, who often operate on thin margins, such measures can tilt the balance between profit and loss.

What makes the present context distinctive is that tariffs are no longer merely economic tools but also political signals. While recent tariff actions have been directed primarily at Chinese imports, Indian exporters to the U.S. face a more uncertain and arguably less predictable trade environment. It is therefore timely to revisit how Management Accounting can serve not just as a reporting function, but as a compass for strategic navigation.

### Tariffs and Their Implications

Tariffs function as import duties, levies that increase the cost of goods entering a country, thereby altering price competitiveness. While its stated purpose is to protect domestic

producers, the effect is to raise the landed cost of imports, reducing their competitiveness. Recent U.S. tariffs on electric vehicles (100%), solar wafers (50%), and tungsten products (25%) demonstrate the sharpness of these increases (USTR, 2024).

For Indian firms, the immediate consequence is twofold. First, products that directly compete with Chinese exports may find an opening, provided they can enter the market at competitive landed prices. Second, for categories where Indian exports themselves are subject to duties, the additional tariff burden erodes margins unless it is offset elsewhere in the value chain.

### From Accounting to Strategy: An Integrated Framework

In such conditions, intuition alone is insufficient. Companies require a structured, numerical framework. Management Accounting provides this through:

- **Cost Segregation:** Distinguishing variable costs (raw materials, freight, tariffs, commissions) from fixed costs (administration, certification, promotion).

- **Contribution Margin Analysis:** Identifying what remains after variable costs are deducted from the net selling price.
- **Break-Even Analysis:** Determining the sales volume needed to recover fixed costs.

While these tools are not new, their relevance is heightened in turbulent trade environments. For exporters, they support not only cost control but also informed market selection, helping answer the strategic question: *Whether to continue in the U.S. market or reallocate to alternative markets with lower tariffs and leaner indirect costs?*

### Through the Lens of Management Accounting

Tariff changes are more than just alterations in trade policy; they are disruptions that ripple through cost structures, profit margins, and ultimately, the strategic choices of firms. For Indian exporters, the recent surge in U.S. tariffs underscores how volatile the external environment can be. In such conditions, instinct or traditional reliance on sales volumes is insufficient. What companies need is a structured lens, provided



by Management Accounting, that converts raw cost data into strategic insight. Among the most practical tools for this purpose are cost segregation, contribution margin analysis, and break-even analysis. While often viewed as routine accounting calculations, in a tariff-driven environment, these tools evolve into decision-making frameworks that help firms sharpen their focus and allocate resources wisely.

### 1. Cost Segregation: Clarifying the Anatomy of Costs

The starting point for strategic focus is clarity. Tariffs, by definition, alter the variable cost structure of exports. An item that earlier attracted a 5% duty may now face 20% or even 50%, changing its economics overnight. Without a clear split between fixed and variable costs, companies risk misinterpreting the true impact of such changes.

By segregating costs, exporters can ask sharper questions:

- Which portion of the cost increase is truly variable, directly linked to tariff hikes?
- How much of the overhead remains unaffected, regardless of destination market?
- Which indirect costs, like financing inventory stuck in long shipping routes, are magnified when tariffs lengthen customs clearance times?

For example, an auto components manufacturer exporting to the U.S.

may find that while raw material duties inflate per-unit costs, its fixed expenses, such as plant maintenance, R&D salaries, and insurance, remain unchanged. Recognizing this distinction enables management to assess whether producing additional units for a high-tariff market is viable, or whether production should be reallocated to tariff-free destinations such as ASEAN countries or the UAE.

Thus, cost segregation provides the foundation for strategy: it separates the negotiable from the non-negotiable, allowing leaders to frame choices around what can be controlled and what must simply be endured.

### 2. Contribution Margin Analysis: Beyond Revenue, Towards Value

A common trap in turbulent times is to chase revenues at any cost. Companies desperate to maintain market share in the U.S. may continue exporting, even when tariffs quietly erode margins. Contribution Margin (CM) analysis offers the antidote. By subtracting variable costs (now inflated by tariffs, freight surcharges, or port-handling fees) from the sales price, it isolates the value that each unit contributes towards covering fixed costs and generating profit.

The strategic insight lies in comparison. A U.S. consignment that once generated a ₹40,000 CM per unit may now yield only ₹25,000 after tariffs. Meanwhile, an Australian order, even if smaller in volume, might still deliver a ₹35,000 CM. At first glance, the U.S. looks attractive because of higher absolute sales, but the CM perspective reveals a different truth: the Australian market delivers more value per unit of capacity.

For exporters, this shift in focus—from revenues to contribution—redirects strategy. Instead of allocating scarce marketing budgets and managerial energy to defending high-volume but low-margin markets, firms can prioritize destinations where contribution margins remain healthy. CM analysis, in other words,

reframes the decision from “How much are we selling?” to “How much are we keeping?”—a crucial lens under tariff pressure.

### 3. Break-Even Analysis: Quantifying the Threshold of Viability

Even when contribution margins shrink, companies may argue that maintaining presence in the U.S. is essential for reputation, customer loyalty, or long-term contracts. Here, Break-Even Point (BEP) analysis provides realism. By dividing fixed costs by per-unit CM, it quantifies the exact number of units or shipments needed before profits emerge.

Consider an apparel exporter. With tariffs pushing up variable costs, CM per unit falls from ₹450 to ₹300. To recover fixed costs of ₹5 crore, the company now needs to sell over 16,600 units instead of 11,100 earlier. If the realistic demand in the U.S. is only 12,000 units, the strategy is unsustainable. BEP analysis makes this clear, forcing leadership to reassess market presence.

Strategically, BEP is not merely an accounting formula; it is a litmus test of viability. It shifts boardroom conversations from vague optimism (“We must hold on to the U.S. market”) to quantified scenarios (“We need 5,000 more units than the market can absorb”). Such clarity allows firms to make hard but necessary decisions—whether to scale down, renegotiate contracts, or pivot to alternative geographies.

### 4. From Analysis to Strategy: Creating Focus

Individually, cost segregation, CM, and BEP highlight different dimensions of tariff impact. Together, they create a decision-making triad:

- Cost segregation defines where the tariff pain lies.
- Contribution margin highlights which market still creates value.
- Break-even reveals which strategies are viable at scale.

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The strategic focus emerges when these insights are synthesized. For instance, an exporter may discover that while tariffs hurt U.S. margins, ASEAN markets offer both a higher contribution and a realistic breakeven. Instead of spreading thin across all geographies, the company can strategically double down on ASEAN while maintaining only a symbolic presence in the U.S.

This focused approach prevents the dilution of managerial attention and financial resources. It transforms Management Accounting from a reporting exercise into a compass for navigating global volatility.

### Alternative Markets for Indian Exporters

India's expanding network of trade agreements continues to provide exporters with valuable options to reduce tariff barriers and diversify markets. Several deserve particular attention:

■ **Middle East and Gulf Cooperation Council (GCC)—UAE and Oman:** The Middle East has emerged as one of the most compelling alternative regions for Indian exporters, particularly following the operationalisation of the India–UAE Comprehensive Economic Partnership Agreement

(CEPA) in 2022 and the conclusion of the India–Oman CEPA in 2024. Under the India–UAE CEPA, over 90% of India's exports enjoy zero customs duty, spanning engineering goods, gems and jewellery, chemicals, pharmaceuticals, textiles, and food products. Merchandise trade between India and the UAE crossed USD 85 billion in FY2024, reflecting rapid commercial traction (Ministry of Commerce & Industry, Government of India, 2022).

The recent inclusion of Oman significantly strengthens India's strategic footprint in the Gulf. The India–Oman CEPA provides preferential or zero-duty access for a wide range of Indian exports, including engineering goods, chemicals, steel products, textiles, food items, and pharmaceuticals. Oman also plays a dual role—as a consumption market and as a logistics gateway to East Africa and other GCC countries (Ministry of External Affairs, Government of India, 2024). With ports such as Sohar and Duqm positioned on major global shipping routes, Oman offers Indian exporters shorter transit times, lower congestion risk, and reduced logistics volatility compared to trans-Atlantic routes.

Together, the UAE and Oman create a low-tariff, fast-turnover corridor where exporters benefit from quicker cash conversion cycles, lower inventory holding costs, and reduced working capital lock-in, factors that directly enhance contribution margins even when selling prices are modest.

■ **Australia:** The Australia–India Economic Cooperation and Trade Agreement (ECTA), effective from December 2022, has eliminated customs duties on more than 85% of Australian tariff lines for Indian exports, rising to nearly 90% over time. Sectors such

as textiles, leather goods, gems and jewellery, auto components, and processed foods benefit directly, making Australia a stable, medium-term alternative to tariff-volatile markets.

■ **ASEAN Economies:** The ASEAN–India Free Trade Agreement continues to provide tariff elimination or reduction across approximately three-quarters of tariff lines. Countries such as Vietnam, Indonesia, Thailand, and Malaysia offer growing demand, geographic proximity, and value-chain integration opportunities, particularly in engineering goods, chemicals, and auto-components.

■ **Japan, South Korea, and Europe (EFTA):** India's CEPAs with Japan and South Korea, and the newly signed India–EFTA Trade and Economic Partnership Agreement (2024), further expand the universe of low-tariff, high-value destinations, especially for exporters with strong quality and compliance capabilities.

■ **Singapore—Zero-Tariff Access and Re-Export Hub:** Singapore continues to be a critical node in India's export strategy under the India–Singapore Comprehensive







Economic Cooperation Agreement (CECA). Most Indian goods enter Singapore at zero customs duty, making it both a direct market and a high-efficiency re-export hub for Southeast Asia and the Asia-Pacific region. Beyond tariff advantages, Singapore offers predictable customs procedures, minimal clearance delays, and a strong legal and financial infrastructure. From a Management Accounting perspective, these factors significantly reduce indirect costs such as demurrage, compliance overheads, and receivable delays, thereby improving effective contribution margins even when unit selling prices are competitive.

- **Europe—EFTA and the Broader EU Context:** Europe has gained renewed relevance following the signing of the India–EFTA Trade and Economic Partnership Agreement (TEPA) in 2024 with Switzerland, Norway, Iceland, and Liechtenstein. Under this agreement, India has secured near-complete duty-free access for non-agricultural exports, while EFTA countries have committed to substantial long-term investments into India. For Indian exporters, particularly in engineering goods, speciality

chemicals, pharmaceuticals, precision manufacturing, and processed foods, EFTA markets now represent a high-value, low-tariff alternative within Europe.

Beyond EFTA, the European Union remains a significant destination, albeit with stricter regulatory and sustainability requirements. While tariffs in the EU are generally moderate, compliance with standards relating to quality, traceability, and sustainability can increase indirect costs. However, exporters with mature compliance systems may still realise stable contribution margins due to premium pricing, longer-term contracts, and diversified customer bases. From a strategic accounting standpoint, Europe thus represents a selective opportunity, best suited to firms that can absorb compliance costs while benefiting from tariff predictability and market depth.

- **Africa—Emerging Demand with Preferential Access:** Africa is increasingly relevant as an alternative destination, particularly for Indian exporters seeking volume growth with manageable cost structures. Preferential arrangements such as the India–Mauritius Comprehensive Economic Cooperation and Partnership Agreement (CECPA) provide duty advantages, while several African economies offer strong demand for pharmaceuticals, engineering goods, agricultural inputs, and consumer products. In addition, many African markets involve shorter shipping distances than the US or Europe and lower competitive intensity, which can translate into healthier contribution margins despite modest absolute pricing. From a strategic standpoint, Africa also benefits Indian exporters by diversifying geopolitical and tariff risk. While individual market volumes may be smaller, the combined regional opportunity,

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evaluated through contribution and break-even lenses, can justify targeted expansion.

### Direct and Indirect Cost Considerations

What often goes unnoticed is that tariff savings alone do not determine market attractiveness. Indirect costs, transit time, port clearance, documentation complexity, and even payment terms can decisively alter profitability. For instance, shipments to Oman or the UAE typically reach destination ports within 3–5 days, compared to 30–40 days for US-bound consignments, materially reducing working capital lock-in, financing costs, and inventory risk. Faster turnaround lowers inventory holding and financing costs, thereby improving effective margins. From a



Contribution Margin and Break-Even perspective, indirect cost reductions function like “hidden revenue.” A saving of even 2–3% in financing and logistics costs can offset moderate price discounts, lowering the break-even point and improving resilience under volatile trade conditions. Hence, destination choice must be evaluated on “total cost economics”, not “tariff rates” alone. Markets with moderate prices but lean cost structures may deliver stronger and more stable profitability than premium markets burdened by tariffs, delays, and capital intensity.

### Managerial Implications

The evidence reinforces a key insight: Topline margins alone do not determine the best export destination. Finance managers must broaden their lens to incorporate indirect costs, tariff preferences, and market growth trajectories. Perhaps the most significant shift is not in numbers but in roles. Under stable trade regimes, accountants often function as custodians of compliance. In a tariff-laden world, their analyses shape strategy itself. Contribution Margin and BEP serve as starting points, but true competitiveness lies in combining these with contextual intelligence, knowing which agreements reduce duties, which

ports offer faster clearance, and which markets present lower non-tariff barriers.

### Conclusion

Tariffs in the U.S. remind us that international trade is as much about strategy as it is about price. For Indian exporters, management accounting tools such as cost segregation, CM, and BEP are indispensable in navigating uncertainty. They may appear technical, but in practice, they transform ambiguity into actionable focus.

The numbers suggest that while the U.S. remains a significant market, alternative destinations—especially those covered by CEPAs and FTAs—can deliver equal or greater long-term value once indirect costs are considered.

Indian exporters are no longer compelled to absorb margin erosion in high-tariff markets when alternative destinations offer tariff relief, faster logistics, and superior cash-flow dynamics. Market selection thus becomes a strategic accounting decision, guided by contribution margin, break-even feasibility, and total cost economics, rather than a function of legacy export volumes alone.

The role of the CEO, therefore, extends beyond markets. Strategic Accounting perspective serves as an advisor, guiding firms on where to compete, how to price, and when to pivot. In a world of shifting tariff regimes, this analytical capability may well prove to be the decisive edge for Indian exporters. These tools are more than calculations. They are frameworks for clarity, instruments of resilience, and, above all, bridges from accounting to strategy.

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