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TODAY'S ANALYSIS

(04 April 2025)

TOPICS TO BE COVERED

- TRUMP'S RECIPROCAL TARIFF: IMPACT ON INDIA & THE WORLD



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TRUMP'S RECIPROCAL TARIFF: IMPACT ON INDIA & THE WORLD

- On April 2, 2025, US President Donald Trump announced **reciprocal tariffs** against major trading partners, aimed at addressing the **US trade deficit** of approximately **\$1.2 trillion**.
- This trade deficit signifies that the US imports significantly more than it exports.
- The reciprocal tariffs are a **key element of Trump's broader economic agenda** to counter this imbalance and assert a more aggressive trade policy stance.

KEY TERMINOLOGIES

- **Trade Deficit:** Occurs when a country imports more than it exports.
- **Reciprocal Tariffs:** Tariffs are taxes imposed on imported goods. Reciprocal tariffs imply that the US will charge the same tariff rate on imports as the exporting country levies on the US goods.
- **Protectionism:** Economic policy to protect domestic industries from foreign competition.

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- **Stagflation:** A combination of stagnation and inflation in an economy.
- **WTO (World Trade Organization):** International organization dealing with global trade rules.
- **Intellectual Property (IP):** Legal rights to inventions, designs, and brand names.
- **Foreign Direct Investment (FDI):** Investment made by a foreign entity in a country's economy.
- **Smoot-Hawley Act:** The Smoot-Hawley Tariff Act, passed in 1930, raised US tariffs on over 20,000 imported goods, aiming to protect domestic businesses and farmers, but ultimately worsened the Great Depression by sparking retaliatory tariffs and hindering international trade.

BACKGROUND ON THE US TRADE DEFICIT

- The **US trade deficit** occurs when the value of US imports exceeds the value of exports.

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- With a deficit of **\$1.2 trillion**, this imbalance is considered a major concern for the US economy.
- **Trade deficits** are often seen as a sign of economic imbalance and are a focal point for policymakers who aim to protect domestic industries from foreign competition.

ANNOUNCEMENT ON THE TARIFF INSTITUTE

- **Base Tariffs (10% on all countries):** A base tariff of **10%** is set to be applied to all trading partners, marking a significant increase from the previous tariff rate of about **2.5%**.
- This base rate will be enforced starting from **April 5, 2025**.
- **Country-Specific Tariffs:** These tariffs will be levied based on the difference between tariffs imposed by other countries on US goods and the “discounted reciprocal tariffs” which are **half** of the tariffs these countries impose.
- The country-specific tariffs will take effect from **April 9, 2025**.

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LIST OF COUNTRIES WITH RECIPROCAL TARIFFS

Country	Trump estimates of tariffs on US goods	Trump's 'reciprocal' tariffs	US trade deficit in 2024 (with a minus sign) in \$ millions	US Trade Deficit as a percentage of the total US Trade deficit	Per capita income (US is at \$ 89,680)
Cambodia	97%	49%	-12,300	1.0	\$ 2,950
Vietnam	90%	46%	-1,22,071	10.1	\$ 4,990
Sri Lanka	88%	44%	NA	NA	NA
Bangladesh	74%	37%	-6,152	0.5	\$ 2,770
Thailand	72%	36%	-45,609	3.8	\$ 7,750
China	67%	34%	-2,95,402	24.6	\$ 13,870
Taiwan	64%	32%	-73,937	6.1	\$ 34,920
Indonesia	64%	32%	-17,883	1.5	\$ 5,250
Switzerland	61%	31%	-38,463	3.2	\$ 1,11,720
South Africa	60%	30%	-8,837	0.7	\$ 6,520
Pakistan	58%	29%	-2,989	0.2	NA
India	52%	26%	-45,664	3.8	\$ 2,940
South Korea	50%	25%	-66,007	5.5	\$ 37,670
Japan	46%	24%	-68,468	5.7	\$ 35,610
Malaysia	47%	24%	-24,830	2.1	\$ 14,420
EU	39%	20%	-2,31,769	19.3	\$ 45,240
Israel	33%	17%	-7,425	0.6	\$ 54,370
Philippines	34%	17%	-4,880	0.4	\$ 4,440
UK	10%	10%	11,857	-1.0	\$ 54,280
Brazil	10%	10%	7,351	-0.6	\$ 10,820
Singapore	10%	10%	2,829	-0.2	\$ 93,960
Chile	10%	10%	NA	NA	\$ 17,930
Australia	10%	10%	-73,927	6.1	\$ 67,980
Turkey	10%	10%	-1,453	0.1	\$ 16,880
Colombia	10%	10%	1,347	-0.1	\$ 7,900
World			-12,02,872		\$ 14,450

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DETAILS OF THE TARIFF STRUCTURE

The tariff structure varies by country and is based on two key factors:

- **Per capita income** (the average income per person in a country): Lower-income countries like **Cambodia** (per capita income: \$2,950) and **Bangladesh** (lower than India) have been hit with very high tariffs despite their smaller share in the US trade deficit.
- **Share in the US Trade Deficit** : Countries contributing significantly to the US trade deficit like **China** and the **EU** have received high tariffs despite having higher per capita income levels.

ANALYSIS OF TARIFFS BY COUNTRIES

- **Cambodia**: Has the highest tariff at **40%**, despite accounting for only 1% of the US trade deficit.
 - The country's low per capita income of **\$2,950** contributes to this high tariff.
- **Bangladesh**: With an even lower per capita income, Bangladesh faces a **37%** tariff. It contributes only **0.5%** to the US trade deficit.

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- **China:** With a much higher per capita income and a **25%** share in the US trade deficit, China is subject to a **34%** tariff.
- **European Union (EU):** The EU, which accounts for almost **20%** of the US trade deficit, faces a **20%** tariff.
- **Switzerland and Singapore:** Both countries, with higher per capita incomes than the US, have been subjected to tariffs despite their positive trade relations with the US.
- **Countries with a US Trade Surplus:** Even countries with which the US has a **trade surplus** (where the US exports more to the country than it imports from it) such as the **UK, Brazil, Singapore, and Colombia**, are not spared, and tariffs have increased sharply for these regions as well.

INDIA'S POSITION

- **Tariff on India:** India has been assigned a **26%** tariff, reflecting concerns raised by the US regarding India's trade policies.

India-US Trade Relations

- India-US Bilateral Trade (April-November 2024-25):
 - **Total trade:** \$82.52 billion

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- **Indian exports to the US:** \$52.89 billion
- **Indian imports from the US:** \$29.63 billion
- **India's trade surplus:** \$23.26 billion
- The US was India's **2nd-largest trading partner** during this period.

US TRADE WITH INDIA, OTHER KEY COUNTRIES

TABLE 1

TOP IMPORTS FROM THE US

Top 5 items that comprise 60% of India's imports from US (2023-24)

Items	Value
Mineral fuels & oils	12.96
Precious, semi precious stones	5.16
Nuclear reactors, boilers	3.75
Electrical machinery	2.3
Aircraft and parts	2.25

TOP EXPORTS TO THE US

Top 5 items that comprise 67% of India's exports to US (2023-24)

Items	Value
Engineering goods	17.62
Electronic goods	10.49
Gems and jewellery	9.9
Drugs and pharmaceuticals	8.72
Petroleum products	5.83

Value in \$billion

US TRADE DEPARTMENT'S REPORT ON INDIA

- **High Agricultural Tariffs:** India's **WTO-bound tariff rates** (tariff rates agreed upon at the World Trade Organization that a country is bound to follow) on agricultural products are among the highest in the world, averaging **113.1%**, with rates reaching up to **300%**.

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- This provides India with considerable flexibility in raising tariffs at will.
- **Unilateral Tariff Increases:** India has raised tariffs multiple times without public consultation or proper notice.
- For example, in the **2019-2020 budget**, tariffs were increased on **70 product categories** without prior notification, and similar hikes were made in subsequent budgets.
- **Protectionist Policies:** The US has criticized India's increasing **protectionist stance** (policies aimed at shielding domestic industries from foreign competition), particularly since 2014.
- It includes the imposition of tariffs on various goods such as **telecommunications equipment, solar products, and electronics**.
- **Intellectual Property and FDI:** India's **IP enforcement** (the protection of patents, copyrights, trademarks, and other intellectual property) is considered inadequate, and the **FDI** (investment by a foreign entity in a country's economy) restrictions in retail are seen as obstacles to fair trade.

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- **Subsidies and Distortion:** India provides substantial **subsidies** (financial assistance provided by the government to support industries) in agriculture, including **credit subsidies, debt waivers**, and subsidies for **fuel, electricity**, and **fertilizers**.
- These distortions affect the competitive landscape for imported products.
- **Localized Internet Shutdowns:** India has been criticized for **shutdowns of the Internet** (temporary suspensions of internet access) in various regions, disrupting commercial operations and impeding trade in the digital economy.

GLOBAL ECONOMIC IMPLICATIONS

- **Impact on the US Economy:**
 - **Slower Growth:** The tariffs are expected to **slow down global trade**, which will lead to lower economic growth both in the US and worldwide.
 - Stock markets may face downward pressure as companies revise their earnings expectations.
 - **Higher Inflation:** The tariffs will increase the cost of imports, contributing to higher prices for US consumers.

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- This could lead to significant **inflationary pressure** (increase in the price level of goods and services) unless the US dollar strengthens to offset these higher costs.
- **Risk of Stagflation:** The US could experience **stagflation** (a situation where the economy experiences slow growth and high inflation simultaneously).
 - It is a scenario which would likely create political and economic challenges for the Trump administration.
- **Impact on Global Trade:**
 - **Slower Growth Globally:** Countries around the world will face **slower economic growth** and **higher inflation** due to increased tariffs.
 - The extent of the impact will vary depending on the degree to which they depend on trade with the US.
 - **European and Asian Responses:** The **EU** (38% of global trade) and **Asia** (35% of global trade) could look to mitigate the impact by strengthening trade ties within their own regions, reducing their dependence on the US over time.

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HOW SHOULD INDIA NAVIGATE THESE TARIFFS?

India faces the dual challenge of protecting its **domestic policy** (policies regulating domestic industries and market access) choices while responding to external pressure. India's options include:

- **Defend Protectionist Policies:** India may choose to maintain its protectionist stance and continue raising tariffs on selected goods.
- **Reform Domestic Policies:** Alternatively, India can use the **external pressure** to implement reforms that address global concerns, including:
 - **Improved Transparency:** Reforming its tariff-setting processes to ensure greater **transparency** (clear communication of trade policies) and consistency.
 - **IP Enforcement:** Strengthening **intellectual property laws** and enforcement.
 - **Reform in Agriculture Subsidies:** Reducing agricultural subsidies that distort global markets.
 - **FDI and Market Access:** Opening up markets further, especially in sectors like **retail** and **banking**, to attract more **foreign direct investment**.

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