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AGGRESSIVE TRUMP'S TARIFFS - INDIAN RAMIFICATIONS

28 March 2025

Donald Trump's assumption of power as the 47th President of the USA on January 20, 2025, has evoked widespread development discourse and thrown the global economy into a tailspin in ways few would have thought possible. Jonathan Alter, an eminent journalist, wrote, "*All Presidents are blind dates*". The jury is still out on whether President Trump signifies a blind date.

While addressing a joint session of the US Congress, President Donald Trump announced that given high tariffs on American goods imposed by Canada, Mexico, India, and South Korea, the USA will impose reciprocal tariffs, the like-for-like duties for all the other countries, and products on these countries starting April 2, 2025.

President Trump said the US will impose a 25% tariff on oil and gas imports targeting countries buying Venezuelan crude from April 2, 2025 (a day U.S. President Donald Trump called "*Liberation Day*" for the U.S. economy), impacting *inter alia*, India, which relied heavily on Venezuelan oil. Indian refiners might need to explore alternatives, including increased Russian oil imports, to offset higher costs.

President Donald Trump eloquently maintained, "*China's average tariff on our products is twice... and South Korea's average tariff is four times higher… This is happening by friend and foe. This system is not fair to the United States. It never was…We have been ripped off for decades by nearly every country on Earth, and we will not let that happen any longer*". Similar stern action is in for the European Union (EU) because of Trump's plan to impose tariffs of 25 % on EU, holding EU was created to "*screw the United States*". Strong and unambiguous words these!

In a Truth Social post, Trump warned Canada and the European Union that if there was any joint retaliation, "*large-scale Tariffs, far larger than currently planned, will be placed on them both in order to protect the best friend that each of those two countries has ever had*!"

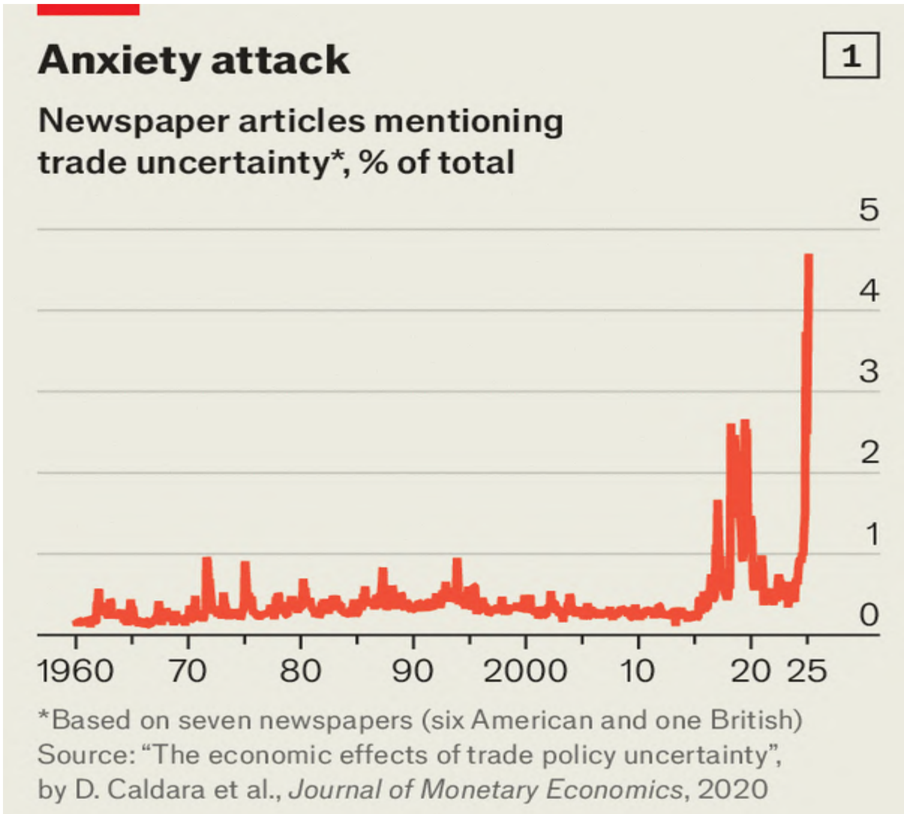
At this defining moment of history, the EU is confronted with three policy choices:

- It could submit and eat the humble pie.
- It could retaliate.
- It could still engage with its main transatlantic partner to settle.

Hitting the Gas on Tariffs While Wall Street Slams the Brakes

Grim portents abound. The significant scaling back of American policy architecture and operational framework marks a watershed moment in global history. There is a real and worrisome concern that the US stock market's recovery from a slew of aggressive trade measures against allies and partner countries and a possible tariff-induced trade war could be fragile. UBS strategist Maxwell Grinacoff expressed "*concerns of renewed weakness*" in the stock market unless "*policy uncertainty abates*".

Similarly, Barclays strategists slashed their end-of-year price target for the S&P 500 by more than 10%, predicting that "*earnings [will] take a hit as tariffs contribute to material slowing in U.S. activity*." Heightened uncertainty about trade policy is manifested in the extraordinary rise of an index created by Scott Baker of Northwestern University, *et al*, to its highest point ever recorded by their series in four decades. Furthermore, a separate index devised by Federal Reserve economists reached an even worse conclusion, with trade-policy uncertainty at its highest level in over half a century (Chart 1).



With weak U.S. confidence data and concerns over the impact of potential new tariffs on autos, chips, and pharmaceuticals on U.S. growth, the dollar experienced a modest fall. Lacking large cash cushions or leverage with suppliers, these "*reciprocal tariffs*" are pushing entrepreneurs to slash costs and delay expansion plans, thereby imperiling America's economic prosperity, with repercussions on global markets.

Squeeze on Autos, Constricted Margins, Reduced Growth Prospects

In an intensification, Trump announced that he was placing 25% tariffs on auto imports citing national security concerns,. While the auto industry was bracing for an impact from President Trump's trade war, the move was not expected this hard, this soon. This is why it roiled global markets and risks amping up a trade war and accelerating inflation. A number crunching reveals that half of the roughly 16 million cars, SUVs, and light trucks Americans bought in 2024 were imports. The USA imported $474 billion of automotive products in 2024. Mexico, Japan, South Korea, Canada, and Germany were the biggest suppliers.

While President Trump claimed the move would bring more auto and manufacturing jobs to America, it has been estimated that if this steep tariff remains in force, it could add $75 billion a year to automaker costs. Even cars assembled in the US would be hit by higher tariffs since many companies rely on imported parts, and prices may rise by $6,000 a piece.

The USA is not a large market for Indian Passenger vehicles and trucks, which account for less than 1 % of total exports. Export sales of automobile manufacturers with direct exposure to the US market, like Tata's Jaguar and Land Rover, would be dented. This tariff would markedly dampen India's auto components and tyre exports to the US. With exports of $2.2 billion, the US accounted for 29 % of all auto part exports from India. Tyre exports to the US were worth $ 500 million, 17 % of India's global exports.

President Trump has always made a strong case for "*the America First foreign policy*". But we would have done well to realize **"***the best laid plans of mice and men often go astray***" .**

Robert Burns wrote in his poem *To a Mouse* (1785 *),*

"*The best laid schemes o' Mice an' Men*

Gang aft agley,

An' lea'e us nought but grief an' pain,

For promis'd joy!"

A case of the *theatre of the absurd*?

The US is a major market accounting for close to one-third (USD 8.72 billion) of India's global exports of drug formulations and biologicals.

Ripple Effects on Show

With almost 30 % of total global spending and about $ 5 trillion stock of foreign direct investment (FDI) (the largest globally), the USA remains the pivot of the global economy- the real mover and shaker, so to speak. No wonder, then, JPMorgan Chase analysts warned that the possibility of a US slowdown had resulted in a "*materially higher risk of a global recession this year because of extreme U.S. policies*." They placed the probability of a downturn at 40 %. Warren Buffett has called Trump tariffs *"an act of war, to some degree*," since they will trigger a trade war that will contract global trade and economic growth while raising prices and the cost of doing business.

Canada said it would impose additional fees on $20 billion worth of U.S. goods, effectively raising the prices for imported American metal, computers, sporting goods, etc. The E.U. said its retaliatory tariffs, on about $28 billion of U.S. goods, would take effect on April 1. China also vowed to retaliate against the "*arbitrary tariffs*" of 20 % on China. Hence, Trump's tariff whiplash coming into effect on April 2, 2025, could well mark the onset of a possible global trade war because such unbridled aggression will provoke patriotic fervour in other countries and thus unleash retaliation on a large scale, the kind seldom seen in global history.

Trump's fulfillment of his promise of "*making America great again*" (MAGA) is making the world work again. Such aggressive views and evident backsliding can be substantiated by the theoretical underpinnings provided in a book called *No Trade Is Free* (2023) by Robert Lighthizer, who was the former US Trade Representative (USTR) in the first Trump administration. Lighthizer made a strong case for *"fair trade"* rather than free trade since the untrammeled play of market forces hurt American strategic interests.

Sprouting Pain Points

Contrary to Trump's perception of catalyzing manufacturing and turbocharging foreign investment in America, this will lead not to a win-lose situation but a lose-lose scenario with all participants in the process of global trade becoming worse off in a vicious cycle of higher cost of imported goods, concomitantly higher inflation, fragile trade relations, lower volume of trade, and reduced economic growth and declining confidence from both investors and consumers.

The Latin expression *res ipsa loquitur* (the thing speaks for itself), which is a doctrine in common law and Roman-Dutch law jurisdictions, suggests that one of the basic reasons for America's prosperity is the humongous, internal, free trade area. It would, therefore, be unreasonable and illogical to be oblivious to the *Smoot-Hawley Tariff of 1930*, which greatly worsened an already bad recession, plummeting the American economy into a deep depression.

A recession is defined as two consecutive quarters of negative GDP growth. An economic depression is a severe and sustained downturn in economic activity, marked by high unemployment, low production, and a significant decline in GDP, lasting for several years, far more severe and prolonged than a typical recession.

What is prognostically alarming is that this move may become an exercise in futility with the treatment being worse than the disease – a classic case of the *Cobra Effect*, when good intentions backfire spectacularly. Such short-sighted, myopic policies strike at the fundamental tenet of capitalism and free trade.

The ominous impact of trade wars and escalating tariffs on growth and inflation across countries is well established in the steadily burgeoning literature on development economics. Theoretical foundations of Economics and cross-country empirical evidence reveal that shared prosperity necessitates a more connected, secure, and efficient trading environment - an environment, where the size of the global pie not only increases but is also more equitably distributed.

It has been justifiably argued that the underlying reasons for the ostensible 'tariff terrorism' include internal debilities, such as asset monetization, lower crude prices, lower rates, a weaker dollar, and resurgent manufacturing in the US.

These policies could also significantly impact the gold trade. Central banks "*currently hold about 10 percent of their reserves in gold, and could raise this figure to +30 percent to make their portfolios more efficient*" (Michael Widmer, a commodity strategist at Bank of America). Non-U.S. central banks and governments hold a huge stock of dollars in their reserves, reinforcing the dollar as the world's reserve currency. With this position changing over the last few years, some countries are exploring a dollar-policy Plan B, particularly in the event of another financial crisis. This geopolitical shift would provide a discernible upward bias to the gold price. As Widmer averred, "*Uncertainty around Trump administration trade policies could continue to push the USD lower, further supporting gold prices near-term*."

Smelling the Coffee - An Indian Prism

Considered in a proper historical and comparative perspective, trade disputes between the USA and India regarding agricultural and industrial products are not new. But with tariffs becoming an article of faith for President Trump and India focusing on innovative strategies like Atmanirbhar Bharat, Make in India, Productivity-Linked Incentives (PLIs), and start-ups to significantly scale up domestic manufacturing and exports in general, and protect vulnerable sectors such as agriculture (11.2% of agri products from India go to the US), marine products, rice-both Basmati and non-Basmati rice and strategic sectors like defense, energy, and medical devices in particular, such discordant notes have been amplified.

Thus, India's stage of development and the compelling requirements of meeting the challenges of today and the expectations of tomorrow require a renewed thrust on protecting domestic industries, promoting self-sufficiency, and managing trade imbalances—a well-defined strategy to prop up economic growth, when the domestic economy is not fully developed, characterized as the 'infant-industry' argument in economic history.

In a recent analysis, Bernstein cogently argues that India could emerge as a significant beneficiary should the U.S. economy enter a recession. This analysis stems from India's economic resilience amidst global challenges. This school of thought is based on robust domestic consumption, diverse economic structure, and attractiveness to international investors during a U.S. recession because of a shift in investment flows and favorable demographics.

There are also aspects, such as government initiatives like structural reforms and prudent fiscal and monetary policies to maintain macro-economic stability, control inflation, and promote sustainable growth, enhancing economic fundamentals, and diversification benefits for global portfolios emanating from reduced correlation with Western markets and emerging market growth potential.

Paradigm Shift from Free Trade to Fair Trade

While "*no trade is free*", as the globally acclaimed Harvard economist Dani Rodrik stressed, it must be realized that one size does not fit all. Unlike the US, India's high tariffs are WTO (World Trade Organization) compliant. At the time of the inception of the WTO (the 166-member organisation) in 1995, developed nations agreed to let developing countries retain higher tariffs in exchange for introducing TRIPS (Intellectual Property rules), services trade liberalization, and agricultural trade rules.

Given India's wide tariff differential with the US, such tariffs are estimated to lead to a humongous $7 billion annual loss (0.18% GDP) in exports to the US (at 10% broad tariffs), with this rising to ~USD 31 billion at 25% tariffs. Given the maze of procedural and other difficulties involved in sector/commodity-level tariffs, a broad country-level tariff by the US is plausible.

Bloomberg Economics' Maeva Cousin and Deutsche Bank's George Saravelos found that the average rate charged by India on US imports is over 10 percentage points higher than US levies on Indian goods. A broader interpretation of "*reciprocity*," which could include considerations such as a country's trade surplus with the US or its taxes on American firms, will have bigger consequences for all nations.

Leaning Against the Wind-Indian Strategy

Given President Donald Trump's use of a higher reciprocal tariff policy as an instrument of state policy, shielding India from incessant trade wars in this increasingly VUCA (volatility, uncertainty, complexity, and ambiguity) world is uneasy. India needs to leverage the personal chemistry and bonhomie between President Trump and Prime Minister Modi to scale down India-specific tariffs and enable India to get some time to reduce the impact of such tariffs.

India's exports to the USA rely heavily on high-value sectors, such as, pharmaceuticals and gemstones. India's imports from the USA comprise energy, advanced technology, raw materials, aircraft and space parts, and electric machinery.

It has, however, to be realized that the imposition of an equal and matching tariff by India on American goods may seem theoretically feasible in this multi-polar world, but this is practically difficult, if not impossible, because of many global and domestic factors. Some such contextually significant factors relate to the marked difference in the relative size, composition, and heft of the American and Indian economies, the level of technological prowess in America, the extraordinary strength of the American "*military-industrial complex*" and America's continued sway, despite some diminishing in recent years, on geo-strategic issues.

Theoretically, the bonhomie and friendship between the US and India, the two largest democracies in the world, is grounded in a relationship of equals. However, an objective assessment reveals the inherent element of skew in this complex economic landscape.

Non-tariff Barriers (NTBs)

In the development discourse in general and international trade in particular, the significance of non-tariff barriers is often not realized, much less felt. Non-tariff measures (NTMs) are policy measures other than tariffs that can potentially have an economic effect on international trade in goods. Such external headwinds are increasingly shaping trade, influencing the participation and extent of trade. While many NTMs aim primarily at protecting public health or the environment, they also substantially affect trade through information, compliance, and procedural costs. NTBs, such as import quotas, licensing, and technical regulations, prevent free trade, stifle international trade, and make the playing field uneven.

The WTO identifies NTBs as trade, including import licensing, rules for valuation of goods at customs, pre-shipment inspections, rules of origin, and trade-prepared investment measures. There are also issues of import quotas, technical regulations, sanitary and phytosanitary measures, and customs delays.

It needs no clairvoyance to perceive that India uses fewer NTBs than most developing countries, including the US, as strikingly brought by Table 1 given below:

Table 1: Non-tariff measures in India vis-à-vis other Major Economies

Indicator	India	US	China	UK	Japan	Brazil	Germany
Frequency Ratio (% of imported products subject to non-tariff measures)	47	77	90	92	61	75	92
Coverage Ratio (% of import value subject to non-tariff measures)	69	83	92	89	76	84	89

Source: UNCTAD

Accordingly, there must be a sharper focus on NTBs "*to strike the delicate balance between the reduction of trade costs and the preservation of public objectives*" and for a holistic assessment and perspective.

New Days, New Ways

Given India's difficult relationship with China, there is no objective way India can afford to offend the USA in the multi-layered international relationship and economic setting. Hence, India's response to this evolving issue must not be guided by unrealistic notions of "*realpolitik*" but must be gradual, measured, and calibrated to overcome the travails of transition.

Secondly, likely bilateral pacts between India and the UK/ EU, and securing trade agreements with ASEAN and Gulf countries will help to diversify and expand India's export markets and provide a level playing field for competitors, who may have already entered FTAs with partner countries.

Such pacts will enhance trade and investment by reducing tariff and non-tariff barriers, improving market access, and helping expand opportunities in technology, healthcare, and education.

Some other contextually significant measures could conceivably include re-honoring the South Asian Free Trade Area (SAFTA), strengthening BRICS and other regional alliances, exploring emerging geographies and alternative courses that transcend from Europe to the US via the Middle East, and revamping supply chain algorithms.

There must also be an emphasis on joint trade portals by national-level chambers of commerce, product-specific collaborations between business associations and chambers of commerce, expanding IT exports, promoting rupee-based trade, infrastructural reforms, digitization of trade, and confidence-building measures (CBMs) with Bangladesh and Pakistan.

Pathway to the Future

However, an objective analysis reveals that since the US is India's largest trading partner and the largest export destination, it is unrealistic to expect these FTAs to offset the impact of stiffer tariffs by the USA. Such FTAs may, however, cushion the impact of higher tariffs by the US to a limited extent and, therefore, are welcome both politically and economically.

Finally, domestic firms and industries must retool their inputs, outputs, and finished products to slash costs and achieve operational efficiency and an uninterrupted supply chain for growth, structural transformation, and resilience.

This assumes greater importance because India's share of manufacturing in its GDP remains unacceptably low at 13 %. Viewed thereof, a crafting of the industrial strategy and raising the scope and level of well-intentioned strategic macro initiatives like Make in India, local for global, productivity-incentives (PLIs), diversifying export basket, and value addition to an altogether newer and stratospherically higher orbit is difficult but by no means impossible.

However, this necessitates coordinated and concerted action by all stakeholders with a sense of urgency. Failure is not an option.

Note: A shorter version of this article entitled "*Trump Tariff Whiplash: Global Trade at Risk as US Imposes Aggressive Reciprocal Tariffs*" was published by *Outlook Business* on 26 March 2025.