

# World bracing for Turbulence on Trump's 'beautiful' Tariff hikes

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Banking & Economics Research Team

## ➤ World enters into prolonged period of trade wars, heightened uncertainty and volatility

- Trump's 'Liberation Day' tariff hikes were higher [than our expectations](#); they are not reciprocal tariffs but estimated on trade balance basis
- Trade wars, fears of FX wars, recession worries likely to hit investment sentiment globally
- China, ASEAN likely to be worst affected, which would also exacerbate fears of dumping effects across sectors
- Financial market volatility may be a new normal in 2025, amid weak investment and flows sentiment globally
- With Trump known for policy 'flip flops' the economy wide impact would be contingent on contours of the trade deal forged with individual economies in coming months

## ➤ Indian impact may not be as harsh as it is being made out to be

- Various channels of impact working together : Global growth (-ve), flows (-ve), sentiment (-ve), oil (+ve), services exports (+ve)
- We continue to expect monetary policy to persist with growth heavylifting amid global uncertainty with another 50-75bps rate cuts and liquidity support
- Rupee supported in short term by weak Dollar, yet bleak flows sentiment may not bode well for BoP and FX dynamics in FY26
- Our key concern remains that broad based private capex recovery may be delayed further on weak sentiment globally
- On a sectoral basis the worst affected are gems and jewellery, electronics, auto components, food products (seafood) while the impact may be mixed on sectors like textile and metals. Also we need to brace for China dumping effects on some sectors.
- India may be cushioned vis-a-vis global peers given the size of trade balance with US, yet final impact contingent on the contours of trade deal between India and US most likely by fall of 2025.

# Trump Declares National Emergency To Increase US Competitive Edge, Protect Sovereignty and Strengthen Economic Security

Sr No	Key Highlights
1)	U.S. President Trump invoked his authority under the International Emergency Economic Powers Act to address the national emergency posed by the large and persistent trade deficit that is driven by the absence of reciprocity in US trade relationships and other policies like currency manipulation, value-added taxes perpetuated by other countries
2)	President Trump announced that all economies will be subject to a 10% tariff using his IEEPA authority from April 5. As of April 9, some economies will face reciprocal tariffs as high as 50%. There will be exceptions for some products such as steel, aluminium, and car parts that will be subject to their own fixed tariffs. <b><i>Trump to increase the tariff if trading partners retaliate or decrease the tariffs if trading partners take significant steps to remedy non-reciprocal trade arrangements</i></b>
3)	Some goods will not be subject to the Reciprocal Tariff. These include: (1) steel/aluminium articles and autos/auto parts already subject to Section 232 tariffs; (2) copper, pharmaceuticals, semiconductors, and lumber articles; (3) bullion; and (4) energy and other certain minerals that are not available in the U.S. Meanwhile Canada and Mexico have not had additional reciprocal tariffs imposed on them.
4)	Trump stated India imposes their own uniquely burdensome and/or duplicative testing and certification requirements in sectors such as chemicals, telecom products, and medical devices that make it difficult or costly for American companies to sell their products in India.

# These are not reciprocal tariffs but a trade balance basis tariff estimation for all countries

Country	Exports to US (USD bn)	Imports from US (USD bn)	Trade balance with US (USD bn)	Tariffs faced by US (%)	Proposed reciprocal tariff by US (%)
China	144	439	-295	67	34
EU	504	771	-267	35	20
Vietnam	13	137	-124	90	46
Taiwan	42	116	-74	64	32
Japan	80	148	-68	46	24
S.Korea	66	132	-66	50	26
India	42	87	-45	52	27
Switzerland	25	63	-38	61	32
Bangladesh	2	8	-6	74	37

$$\Delta\tau_i = \frac{x_i - m_i}{\varepsilon * \varphi * m_i}$$

US administration has used trade balance basis formulae to estimate reciprocal tariffs.

$\tau_i$  : US tariff levy on country  $i$

$\Delta\tau_i$  : change in the tariff rate

$\varepsilon < 0$  : elasticity of imports with respect to import prices

$\varphi > 0$  : passthrough from tariffs to import prices

$m_i$  : total imports from country  $i$  to US

$x_i$  : total exports from US to country  $i$

Decrease in imports due to a change in tariffs equals  $\Delta\tau_i * \varepsilon * \varphi * m_i < 0$ .

- While we estimated trade weighted average tariff imposed by India on US imports at 12.6% Trump has inflicted a reciprocal tariff of 27% on a trade balance basis formula

# Trump has called India “the tariff king”

Product Group	Tariffs (Simple Average) (%) by India	Tariffs (Simple Average) (%) by US	Tariff differentials (%)
Food Products	46.8	8.2	38.7
Vegetable	33.1	2.3	30.8
Animal	31.3	5.7	25.6
Transportation	26.9	2.0	25.0
Footwear	22.0	7.1	14.9
Textiles and Clothing	16.6	9.1	7.5
Miscellaneous	13.0	2.9	10.2
Stone and Glass	12.1	3.3	8.8
Hides and Skins	10.8	5.0	5.8
Plastic or Rubber	10.0	3.7	6.3
Wood	9.1	0.6	8.5
Metals	8.7	2.0	6.7
Mach and Elec	8.5	1.3	7.1
Chemicals	8.2	2.9	5.3
Minerals	6.3	0.4	6.0
Fuels	4.1	0.0	4.1
<b>All Products</b>	<b>12.6</b>	<b>3.8</b>	<b>8.8</b>

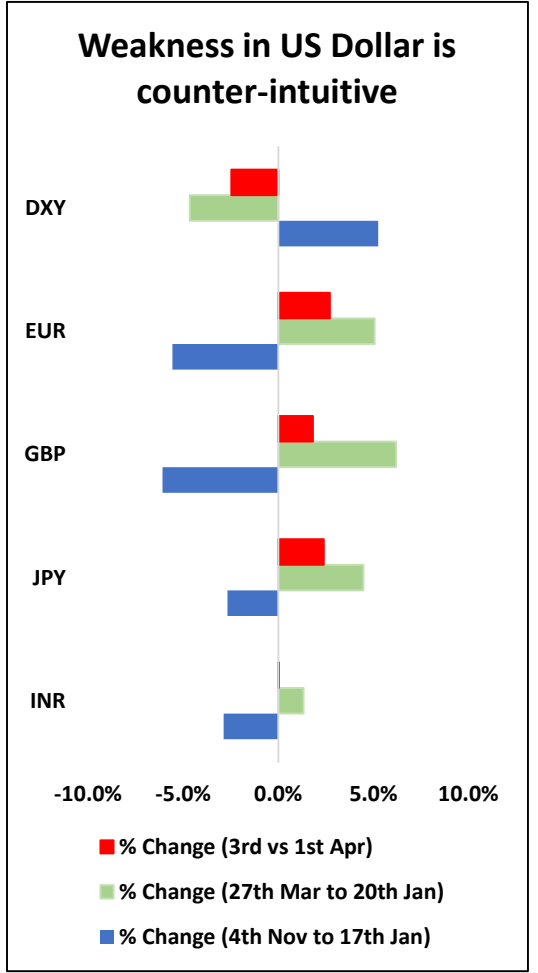
Product Group	US imports from India (US \$ Bn)	India's imports from US (US \$ Bn)	Trade Balance (USD Bn)
Food Products	1.7	0.4	1.4
Vegetable	2.3	1.3	0.9
Animal	2.7	0.0	2.7
Transportation	3.7	1.0	2.8
Footwear	0.9	0.0	0.9
Textiles and Clothing	12.5	0.7	11.7
Miscellaneous	4.5	2.0	2.4
Stone and Glass	18.1	8.2	10.0
Hides and Skins	0.9	0.0	0.9
Plastic or Rubber	2.9	1.9	1.0
Wood	1.0	1.4	-0.4
Metals	7.1	3.1	4.1
Mach and Elec	12.5	6.1	6.4
Chemicals	16.1	4.7	11.3
Minerals	0.2	0.1	0.0
Fuels	3.9	20.7	-16.7
<b>All Products</b>	<b>91.0</b>	<b>51.8</b>	<b>39.2</b>

\* Data refers to 2022, as stated in WITS database

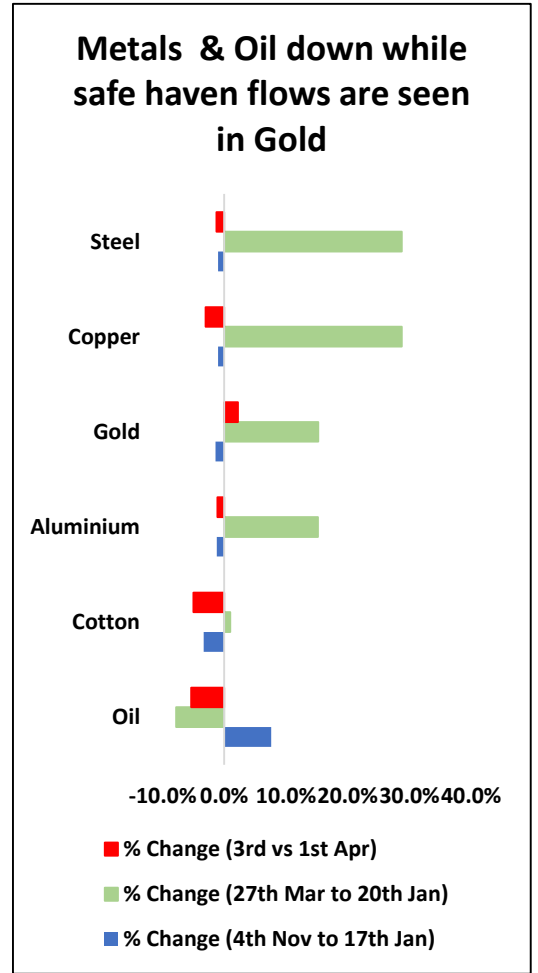
- India and the U.S. agreed to negotiate the first segment of a trade agreement by the autumn of 2025, with India looking to increase energy purchases from the U.S. to address President Donald Trump’s concerns about the U.S. trade deficit with India. All tariff announcements coming from the US will be addressed in the trade forum, where both countries have agreed to sign a trade deal and increase trade to \$500 billion (by 2030).

# Post tariff announcement (highest since pre WWII), market impact is weak equities and lower US Dollar/ Yields

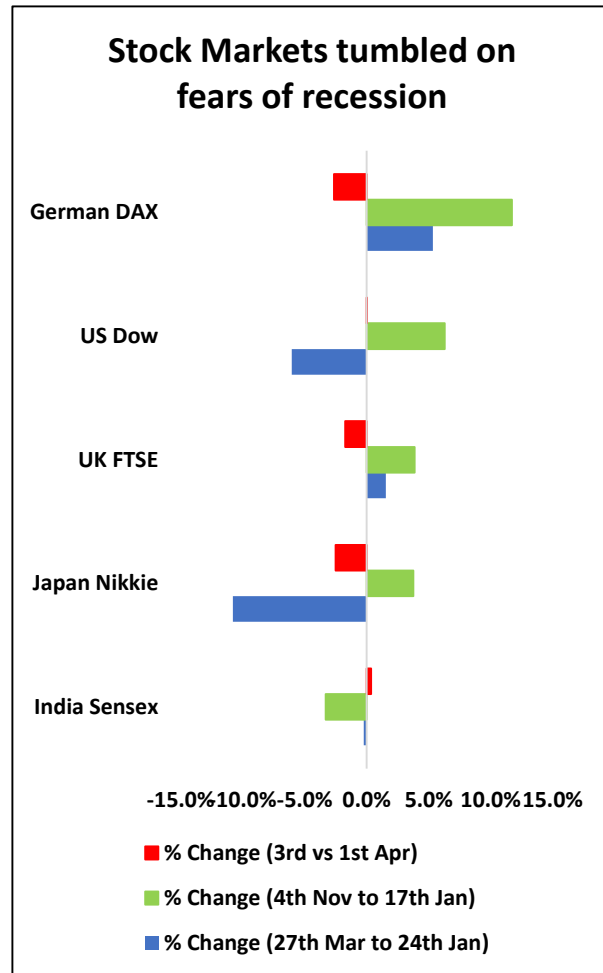
## Currencies



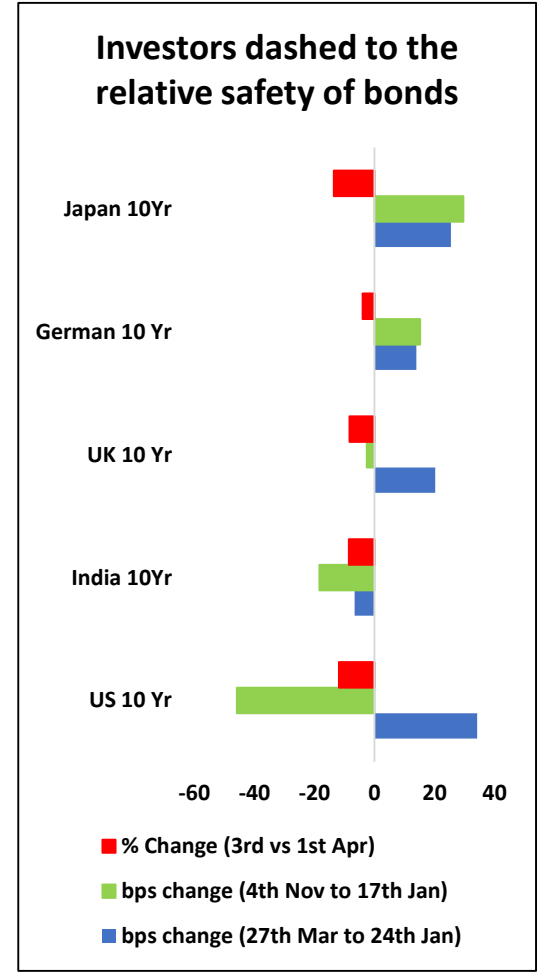
## Commodities



## Equities



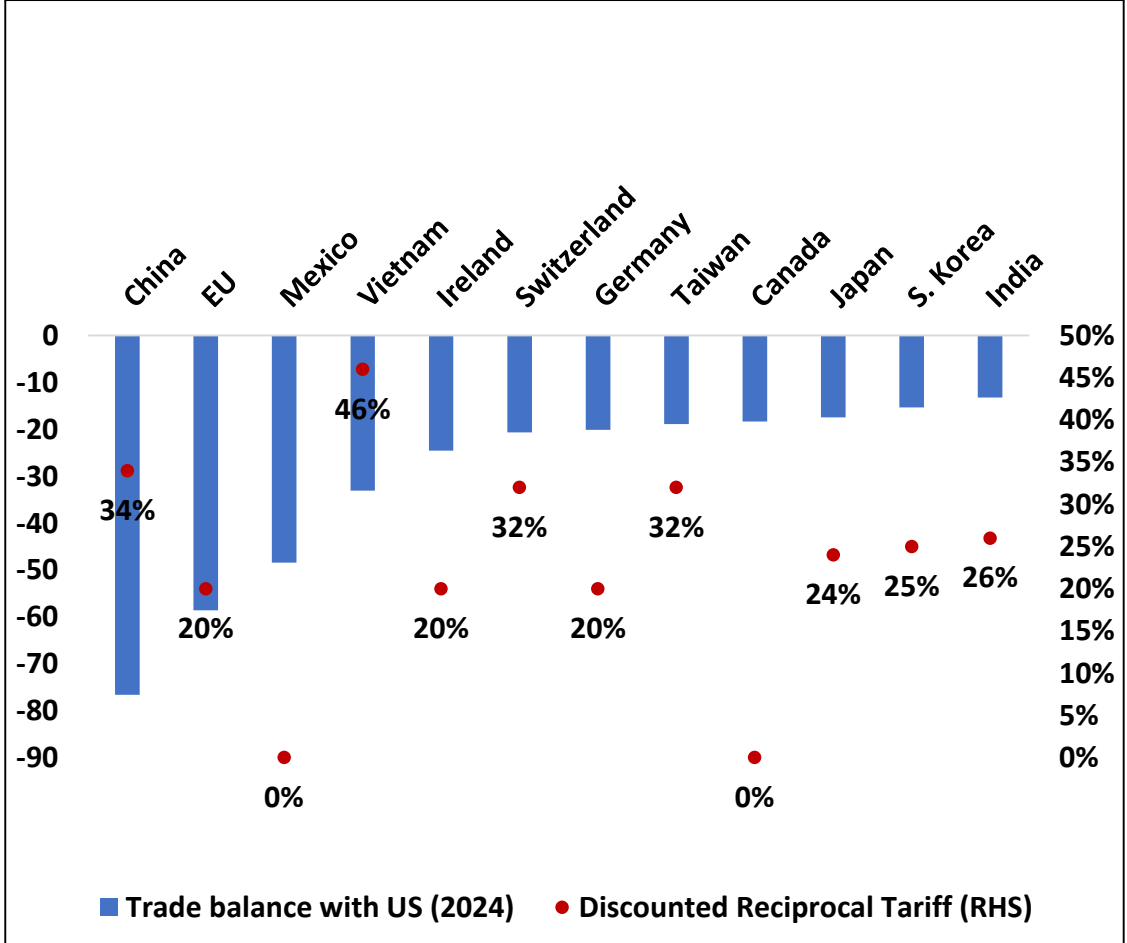
## Bonds



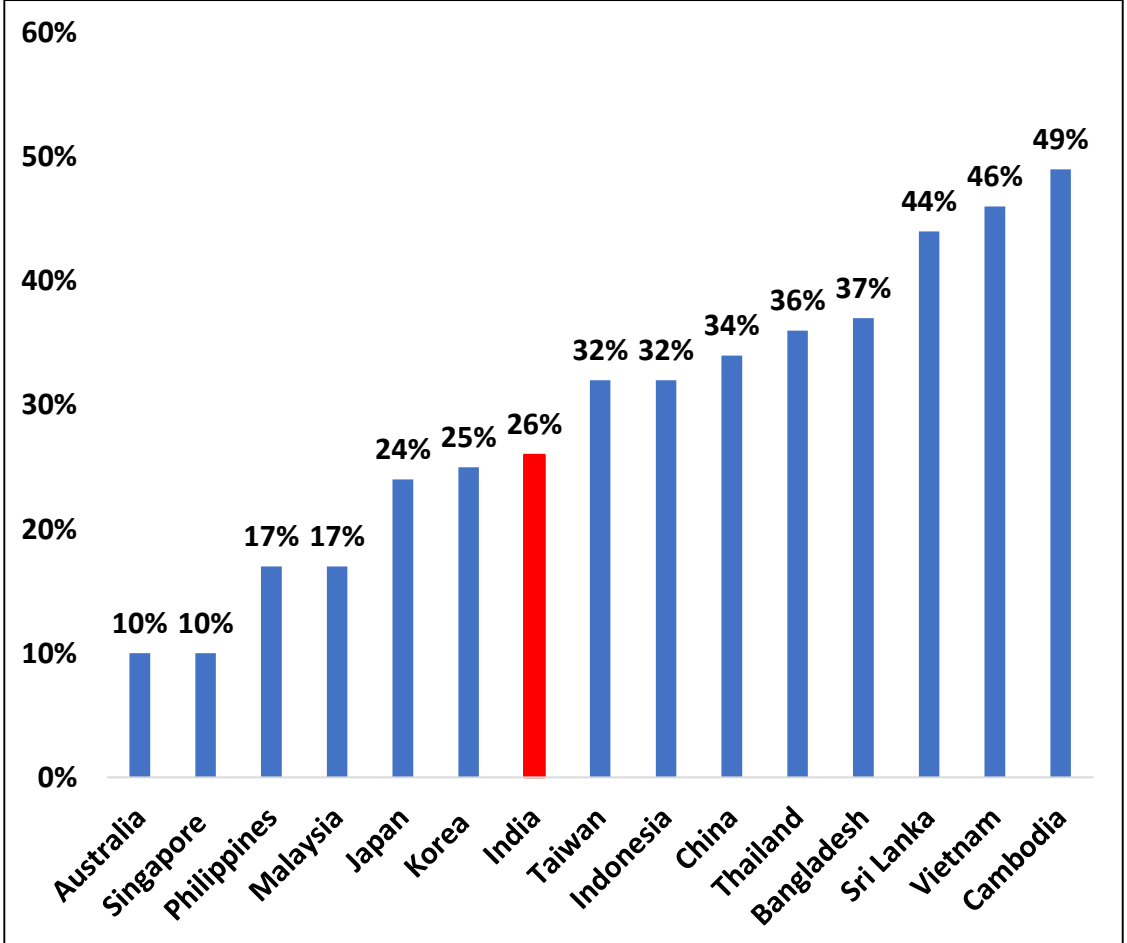
*The weakness in US Dollar despite spike in risk aversion globally was a surprise. It seems markets are more focused on the US growth impact of Trump's tariff hikes, with US equities deep in red two consecutive sessions*

# Who will hurt the most ?

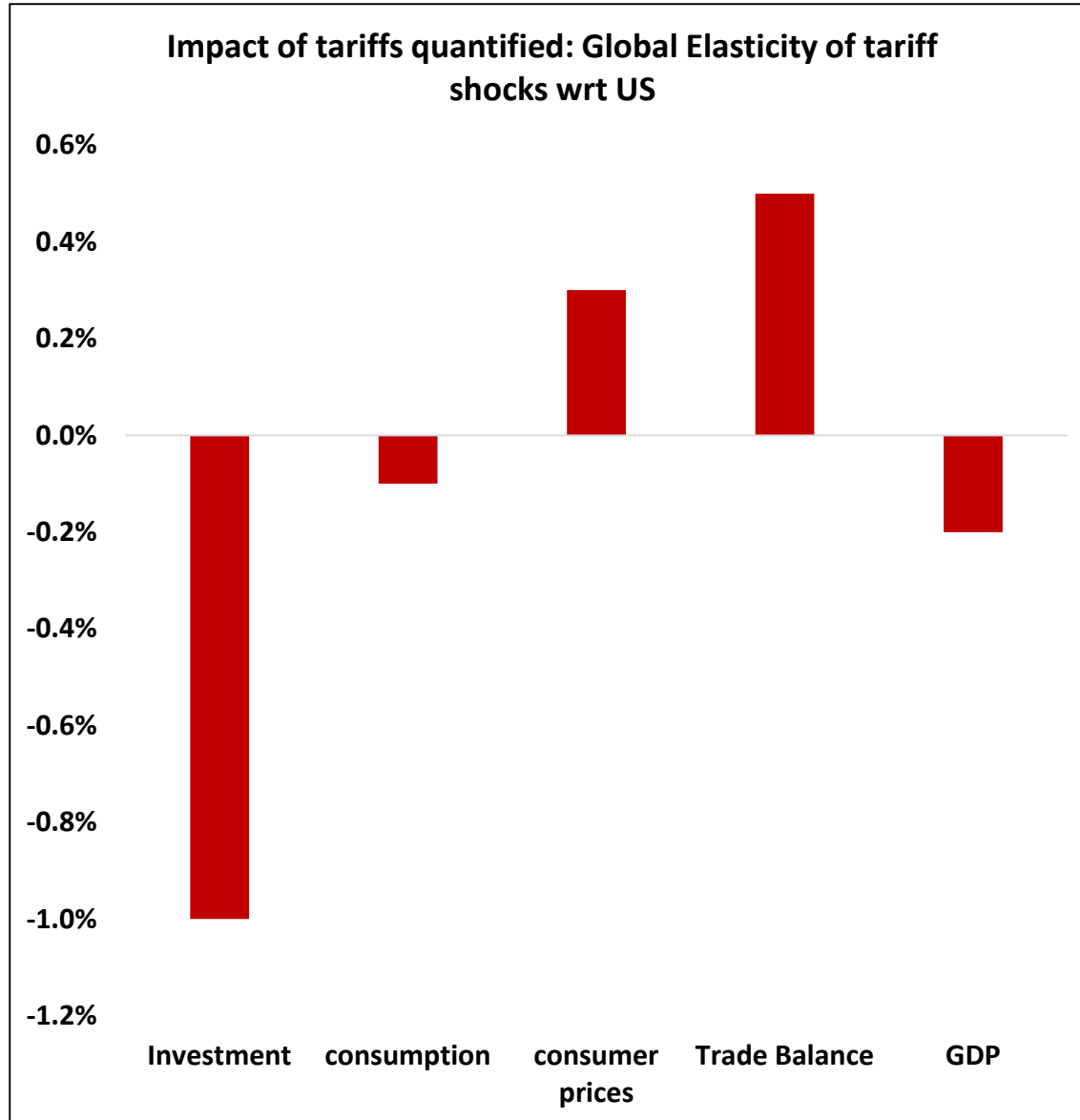
Trade negotiation holds the key as disparity persists between Trade balance with US (2024) and percentage of tariffs applied by Trump



Asia take big tariff hit China, Vietnam, Thailand most affected while economies such as India seem relatively cushioned



# Apart from trade, the key channel of impact will be weak investment sentiment

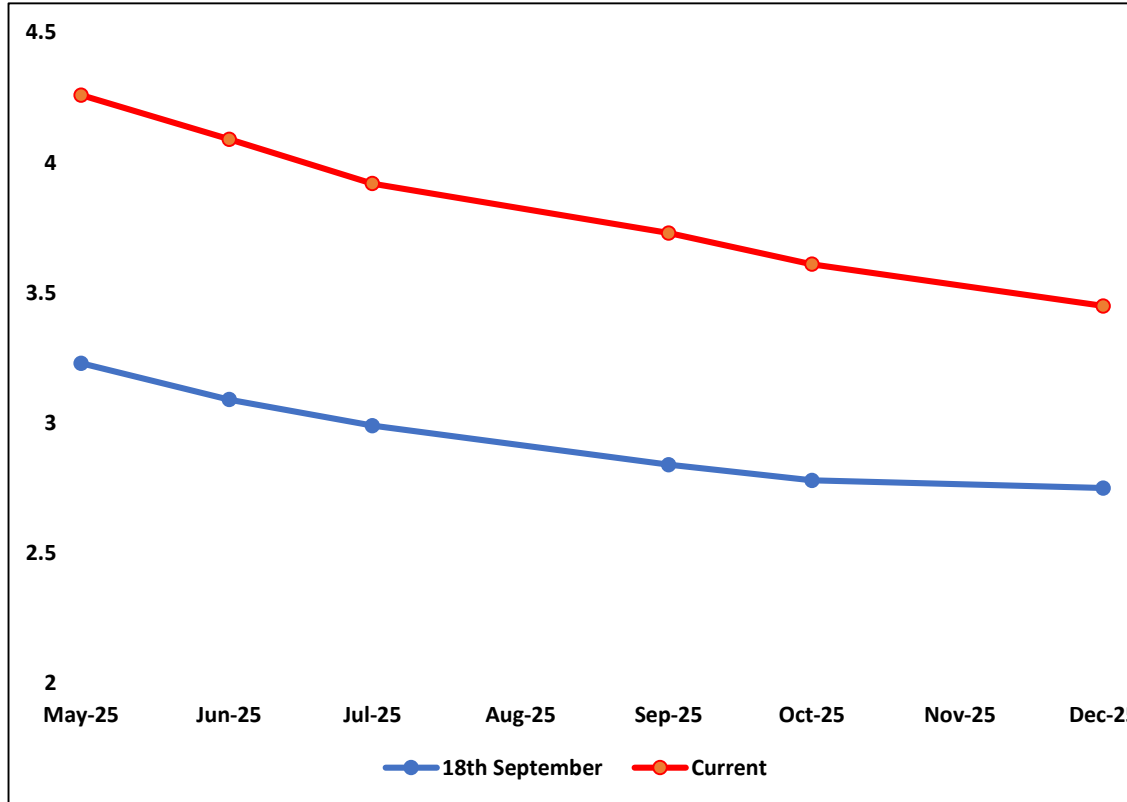


- [IMF research](#) shows that the elasticity of tariff shocks is highest for investment GDP given the adverse impact on investor sentiment
- Interestingly, another [research paper](#) showed that the impact of tariff impositions would adversely affect the country imposing the tariffs rather than the country on which it is imposed.
- Any increase in tariff would increase the prices of intermediate inputs, which would result in increased cost of production. Cost of production would be partially absorbed by the producers hence resulting in lower profit margins.
- However, the rate of pass-through of tariff price would depend on the elasticity of demand for the sector, thereby determining the burden of price-rise.

- [A research paper](#) shows that the impact of tariff impositions would adversely affect the country imposing the tariffs rather than the country on which it is imposed. Hence the world is rightly worried about Trump's tariff on US macros with rising recession fears combined with higher inflation
- [As per Oxford economics](#) in two/three years time:
  - US imports could fall by around 15% due to discounted reciprocal tariff hikes set to take effect within a week.
  - Global GDP likely to reduce up to 0.5ppts this year and 1ppt in 2026.
  - However the impacts could be more significant for economies whose exports represent a large share of their GDP.
- The sectoral impact may be much greater than the macro impacts
  - Tariffs will have enormous impacts on some manufacturing sectors and businesses, while the impact on the service sector - which for advanced economies accounts for the vast majority of economic activity - will likely be much smaller.
- The extent to which the tariffs will reduce US imports depends on whether the US dollar strengthens enough to counteract some of the price impact of tariff hikes, firms compress margins on exports to the US, and if higher import prices lead firms and households to change their spending habits.

# Shift in Fed funds projections however it might not be straight forward

Markets are currently expecting 3 rate cuts during this year









Current FED Rate cut probability till end of 2026

MEETING DATE	CME FEDWATCH TOOL - AGGREGATED MEETING PROBABILITIES					
	300-325	325-350	350-375	375-400	400-425	425-450
07/05/2025	0.00%	0.00%	0.00%	0.00%	26.63%	73.37%
18/06/2025	0.00%	0.00%	0.00%	0.00%	96.30%	3.70%
30/07/2025	0.00%	0.00%	0.00%	64.50%	35.50%	0.00%
17/09/2025	0.00%	0.00%	41.33%	58.67%	0.00%	0.00%
29/10/2025	0.00%	0.00%	90.50%	9.50%	0.00%	0.00%
10/12/2025	0.00%	55.50%	44.50%	0.00%	0.00%	0.00%
28/01/2026	0.00%	86.50%	13.50%	0.00%	0.00%	0.00%
18/03/2026	28.05%	71.95%	0.00%	0.00%	0.00%	0.00%
29/04/2026	41.50%	58.50%	0.00%	0.00%	0.00%	0.00%
17/06/2026	75.02%	24.98%	0.00%	0.00%	0.00%	0.00%
29/07/2026	82.50%	17.50%	0.00%	0.00%	0.00%	0.00%
16/09/2026	0.00%	84.36%	15.64%	0.00%	0.00%	0.00%
28/10/2026	0.00%	75.50%	24.50%	0.00%	0.00%	0.00%
09/12/2026	62.86%	37.14%	0.00%	0.00%	0.00%	0.00%

Current uncertainty due to trade tariffs and weak economic outlook have increased rate cut expectations to 75bps as compared to 25bps at the start of the year

# Domestic growth impact may not be very harsh as various channels working together

*Mixed impact from various channels working together: global growth, oil price and FX*

	Annual growth impact	Annual inflation impact
Global growth slows down by 100 bps	(-) 30 bps 	(-)15 bps 
Oil prices move down by 10%	(+) 15 bps 	(-) 30 bps 
Rupee depreciates by 5%	(+) 25 bps 	(+) 35 bps 

- Various channels of impact working together : Global growth (-ve), flows (-ve), sentiment (-ve), oil (+ve), services exports (+ve)*
- We continue to expect monetary policy to persist with growth heavy lifting amid global uncertainty with another 50-75bps rate cuts and liquidity support*
- Rupee supported in short term by weak Dollar, yet bleak flows sentiment may not bode well for BoP and FX dynamics in FY26*
- Our key concern remains that broad based private capex recovery may be delayed further*
- The final macro impact contingent on the contours of trade deal between India and US expected by the fall of 2025*

# Will Donald Trump flip flop on reciprocal tariff as well ?

Trump called India the "tariff king" and criticized high tariffs on U.S. goods.

Trump announces 26% discounted reciprocal tariff on India

Trump announces 34% discounted reciprocal tariff on China + on top of 20% already announced

Trump call European Union friendly announces 20% discounted reciprocal tariff



Praised PM Modi and promised to strengthened the ties

Trump stated PM Modi is great friend to him but India is not treating us right as we charge them nothing

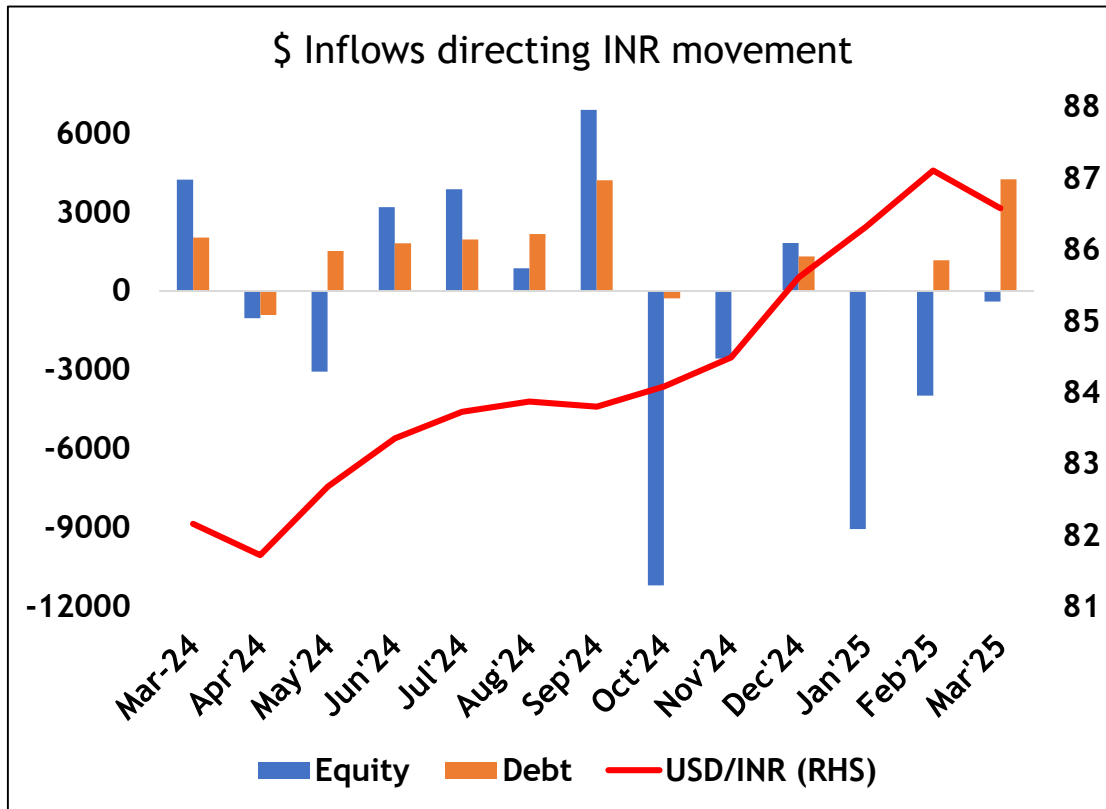
China's Xi Jinping understood that they are ripping us off on tariffs

EU are tough traders, they rip us off so we charge them half of what they charge us

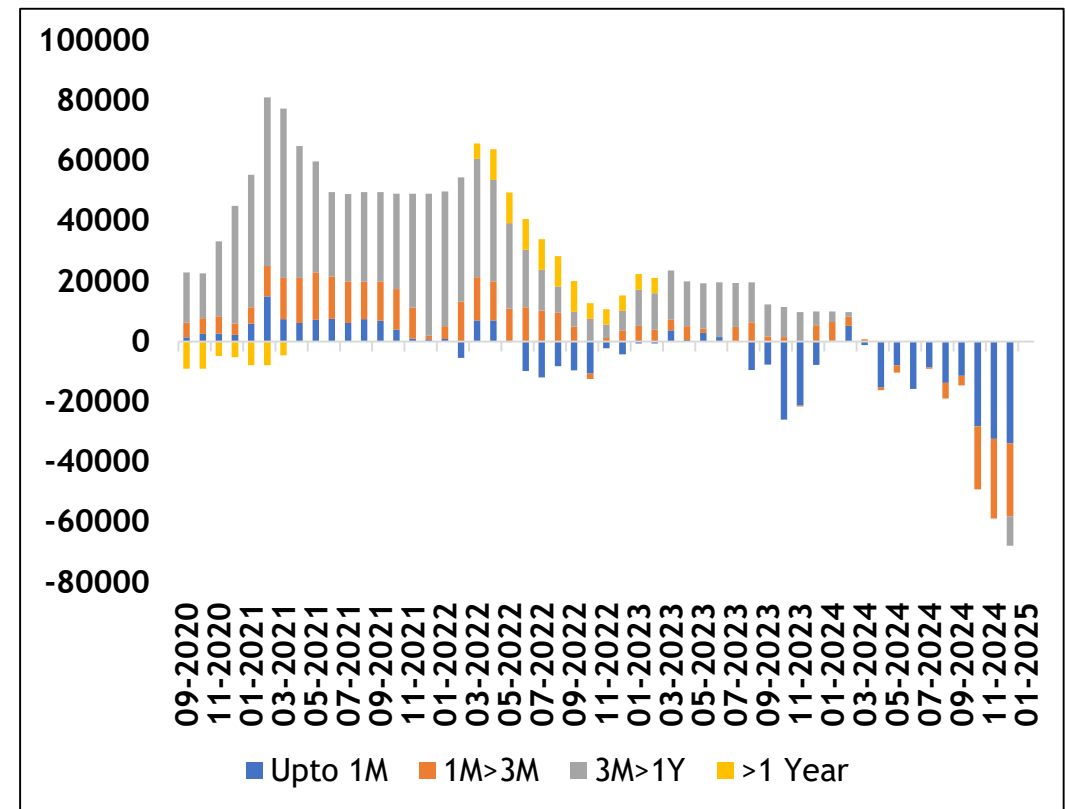
## Trump 2.0: Impact on India

# Rupee has been the prime channel of impact yet weak US Dollar provides some relief

The flows into equity and debt markets have stabilized which help aid the recovery in rupee this month



RBI forward position continues to rise at record levels



- While weak Dollar may drive Rupee gains in the near term, given Rupee is a flows driven currency, the downward pressure on global investor flows may not bode well for BoP dynamics in the next 6-12 months

# Issue of dumping of products from China has led government to implement reciprocal tariffs

## Case study of steel sector: Impact of dumping

% share of China in India' total imports in these sectors		
Sectors	FY 2018-19	FY 2023-24
Electronics Components	36.9	39.62
Computer Hardware, Peripherals	44.6	49.93
Iron And Steel	11.3	16.2
Organic Chemicals	25.2	30
Plastic Raw Materials	11.8	22.4
Electric Machinery And Equipment's	26.7	30.98
Auto Components/Parts	22.8	25.45

## Comparative parameters of India-China steel industry

Sectors	Earlier	Now
India' position	2 <sup>nd</sup> largest exporter	Net importer
Capacity utilization	favorable	Dropped to 1/3
Profit margin	Reasonably good	Dropped by 70-80% avg.
Price competition	Realizable	Chinese imports 60-70\$ a metric ton low
Employment	Mass scale employment	10-15% decline
imports	moderate	Jump by 30%
Price pressure	Competitive rates	10% less than Indian prices

- *India's emerging solar, steel and electronics industries face headwinds from China dumping. Data showed that, India's imports of electronics, hardware and iron and steel have increased in last 3-4 years.*
- *In this regard, Directorate General of Trade Remedies (DGTR) has recommended a 12% safeguard duty on some steel products for a period of 200 days. Also, the government has imposed a provisional anti-dumping duty from \$619 to \$873 per metric tonne (MT) on aluminium foil imports from China.*



Sectors/Industries Contributes majorly to US Exports

- Steel and Aluminium Industry
- Pharmaceutical Sector
- Textile Industry
- Electronics Industry
- Automobile components
- Gems & Jewellery



Sectoral prone to import substitution/ dumping

- Food products
- Automobile Sector
- Iron & Steel
- Gems & Jewellery and Stones
- Solar PV modules
- Textile & Garment industry



Impact on Commodity linked sector

- Crude Oil linked sectors
- Metals linked sectors



## Pharmaceuticals and APIs-


- Exemption given for the sector is a *Positive* given the sector's large exposure to the U.S (USD 8.1 bn, 36% share).
- The tariff exemptions may last till the time US develops Mfg. capability
- Various reports signal that the sector is at risk of phase wise incremental tariffs in coming years.
- Sector to maintain export competitiveness in the U.S but we must look for alternate export destinations.




## Agriculture & allied sector-

- Key agricultural exports to the US, such as seafood and rice, might experience an adverse impact. However, it may be capped, in our view, due to relatively lower tariffs on Indian goods compared to other nations and could preserve the competitiveness of these products in the U.S. market.
- Rice exports, where current US tariffs range between 9 and 11%, India maintains a competitive edge against Vietnam and Thailand despite the increase to 26% as competing nations face steeper duties like China- 34 %, Vietnam- 46 %, Bangladesh- 37 %, Thailand- 36 % & Indonesia- 32 %.
- For seafood exports, particularly shrimp, India's relative tariff advantage combined with shrimp's small share in overall US food expenditure means demand is unlikely to shrink significantly.


## Gems and Jewellery

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- India exported gems and jewellery worth \$11.58 billion in 2024 and imported such items worth \$5.31 billion from the US, leading to a trade imbalance in this sector of \$6.27 billion.
  - Prior to the recent changes, the U.S. imposed minimal tariffs on Indian gems and jewellery ranging between 5.5% and 7%.
  - The increased tariff of 26% is anticipated to lead to a sharp decline in India's gems and jewellery exports to the U.S., potentially affecting the overall performance of the sector

## Petroleum Products

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- India's exports of refined petroleum products to the US have been a component of bilateral trade. Share of export to the US is 6.9% in the total petroleum exports.
  - India imports a significant amount of crude oil and petroleum products from the US. In the fiscal year 2023-2024, India's total imports from the US were valued at over \$42 billion.
  - Notably, imports of oil, gas, and refined petroleum products were exempted from these new tariffs.
  - The exemption of petroleum products from the recent US tariffs is a strategic decision to avoid adverse effects on energy trade and prices.

## Textiles

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- In 2023-2024, India exported textiles and apparel worth approximately \$10 billion to the US
  - The imposition of a 27% tariff on Indian textiles and apparel is substantial, however, it is comparatively lower than the tariffs imposed on key competitors such as China, Vietnam, and Bangladesh.
  - This differential may position Indian exporters more favourably in the US market, potentially enhancing their competitiveness. Nonetheless, sector will have a mixed impact in our opinion.

## Electronics

- In 2023-2024, India exported electronic goods valued at approximately \$14.4 billion to the US. One of the key component is the smartphone exports, backed by PLI led jump in domestic production.
- India's total electronic export to the US is \$5.6 billion in 2023-24 which is 35% of the total exports. Notably total electronic exports to the US has reached to \$ 5 billion till Dec'24 signifying its growing impact in India's export basket.
- The imposition of a 27% tariff on Indian electronic goods presents a substantial challenge, potentially reducing the competitiveness of these products in the U.S. market. Given the lack of indigenous production in the US, mostly US consumer is likely to bear the spike in price burden.
- However, this tariff is comparatively lower than those imposed on key competitors such as China and Vietnam, which may provide Indian exporters with a relative advantage.

## Automobiles and auto components sector-

- The impact on Indian original equipment manufacturers in the auto sector is expected to be minimal. India's passenger and commercial vehicles exports to the US are reportedly as low as 0.13 % (\$8.9 Mn out of its total car exports of \$6.98 billion in 2024) and 3 per cent, respectively, out of total exports.
- India's auto component exports to the US comprise of \$ 2.6bn out of total industry exports of \$20.2 bn. India's share is a minuscule 2 % compared to Mexico -39 %, Canada-13 %, China-12 % in US import basket.
- The new tariff may affect few companies having higher share of revenue from US market (20 to 40 %).

# Thank You !

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