

U.S. Reciprocal Tariffs

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U.S. Reciprocal Tariffs: Global and Indian Implications

Context

On **April 2**, former U.S. President **Donald Trump** announced a sweeping tariff policy as part of **America's Liberation Day** celebrations. This move introduced **reciprocal tariffs** against major trading partners, aiming to correct long-standing trade imbalances, protect domestic industries, and realign global trade flows.

These developments are significant as they impact bilateral relations, global trade architecture, and economic stability. A clear understanding of this issue is essential for analyzing international economic policies and their ripple effects.

What are Reciprocal Tariffs?

- A **reciprocal tariff** is a **retaliatory trade measure**, imposed in response to the tariffs or trade restrictions placed by another country.
- It reflects the principle of **trade fairness**—if one country imposes duties on imports, the affected country mirrors similar tariffs in response.

U.S. Framework:

- Known as **"USA Discounted Reciprocal Tariff"**
 - Calculated by:
 - Estimating the tariff a country imposes on **U.S. goods**
 - **Halving that rate** to arrive at the U.S. response
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Structure of Tariffs Announced

Two sets of tariffs were introduced:

1. Base Tariff

- **10% tariff on all imports**
- Applies to **all countries** that impose tariffs on U.S. goods
- Effective from **April 5, 2025**

2. Country-Specific Tariff

- Varies by country
- Calculated based on:
 - **Tariff rates** on U.S. goods
 - **Currency manipulation**
 - **Weak labor and environmental laws**
 - **Trade regulations that disadvantage the U.S.**
- Effective from **April 9, 2025**

Tariff Structure on Indian Goods

- As per the **U.S. Trade Department**, India imposes **52% tariffs** on American goods
 - In response, the U.S. has announced a **26% tariff** on Indian exports
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Why Is the U.S. Imposing These Tariffs?

- **Reduce Trade Deficit:**

- Targeting the **\$1.2 trillion trade deficit**

- **Reshoring Production:**

- Incentivizing businesses to **relocate production to the U.S.**

- **Attract Investment:**

- Policy expected to bring in **\$6 trillion in domestic investments**

- **Revenue Generation:**

- Tariff revenue to be used for **debt reduction** and **tax relief**

- **Revive Manufacturing:**

- Aimed at boosting **U.S.-based jobs and industries**
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Impact on India

Positive Impacts

- **Tariff Advantage:**

- India faces a **lower tariff (26%)** compared to:

- **China (34%)**

- **Vietnam (46%)**

- **Thailand & Taiwan (36%)**

- May help **increase market share** in U.S.
- **Boost to Textiles:**
 - U.S. market could open up for Indian **textile exports**
 - Especially over competitors like **Bangladesh and Vietnam**
- **Flexibility in Trade Balance:**
 - India's **low electronics imports** from U.S. allow strategic tariff management
- **Pharma Exemption:**
 - **Pharmaceuticals excluded** from reciprocal tariffs
 - India exports **\$8.7 billion** worth pharma products to the U.S. annually

Negative Impacts

- **Export Pressure:**
 - U.S. is India's **second largest trading partner**
 - Accounts for **18% of total Indian exports**
- **Decline in Export Volume:**
 - Possible **2-3% decline** in exports to the U.S.
- **Domestic Industry Strain:**
 - Could impact **profit margins** and **employment** in export sectors
- **GDP Impact:**
 - Growth may reduce by **50 basis points**, from 6.5% to 6%

- **Currency Risk:**

- Drop in **dollar inflow** may weaken the **Indian rupee**
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Global Implications

Global Economy

- **Slower Global Growth:**

- Trade tensions could slow growth and increase volatility

- **Inflation Risk:**

- Import prices rise, leading to **inflation** in U.S. and globally
- Only mitigated if **U.S. dollar strengthens** (e.g., from ₹85 to ₹108)

- **Trade Flow Disruptions:**

- Exporters may **absorb losses** or **pass on costs**, reducing demand

- **Supply Chain Realignment:**

- Exporters may **seek alternative markets**, altering global supply networks

- **Retaliatory Measures:**

- Countries may **respond with counter-tariffs**, risking trade wars

U.S. Economy

- **Stagflation Risk:**

- Combination of **low growth** and **high inflation**

- **Recession Possibility:**

- Rising costs and falling demand may trigger **GDP contraction**
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What Lies Ahead?

- **Trade Negotiations:**

- Bilateral talks may lead to **tariff revisions** or **sectoral exemptions**

- **Avoiding Trade Wars:**

- Escalation will hurt both sides; mutual restraint is critical

- **Strategic Engagement:**

- Diplomacy and calibrated trade policies can **preserve economic stability** and **growth momentum**



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