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# Assessing the impact of US reciprocal tariffs

## US tariffs: Rationale

*US President has long advocated an America First policy, which involves boosting domestic production and reducing the dependence on imports. During the first few weeks of his second Presidency, Donald Trump focused his attention on Canada and Mexico, two of USA's key trading partners, announcing sector specific tariffs. At the same time, President Trump also spoke about high tariffs imposed by other countries including India and China, vowing to correct the tariff imbalance through reciprocal tariffs. The said announcements were expected to be made on 3 Apr 2025, a day President Trump announced as a "Liberation Day" in the history of the US. True to his words, US President announced sweeping tariffs on several of its trading partners yesterday, ending weeks of uncertainty. As per the Executive Order, the new set of tariffs are aimed at correcting USA's growing trade deficit, which is weighing on domestic manufacturing capability. New tariffs have been announced for 180 countries.*

To put this in perspective, US trade deficit rose by 40% in the last 5 years to reach US$ 1.2 tn in 2024. A large part of this deficit is concentrated in the industrial goods sector, which accounted for over 95% of total US trade deficit in 2024. US major imports from other countries are majorly machinery (16%), electronics (15%), automobiles (12%), which together account for over 40% of its total imports. Apart from this, pharma products and precious stones are also important import items for the US. (Table 1)

**Table 1: US major imports**

| Product Name | Imports in 2024, US$ bn | % share in 2024 |
|---|---|---|
| Machinery and mechanical appliances | 531.2 | 15.82 |
| Electrical machinery and equipment and parts thereof | 485.9 | 14.47 |
| Vehicles | 391.5 | 11.66 |
| Mineral fuels, mineral oils and products of their distillation | 251.1 | 7.48 |
| Pharmaceutical products | 212.7 | 6.34 |
| Commodities not specified according to kind | 128.0 | 3.81 |
| Optical, photographic, cinematographic, medical or surgical instruments and apparatus | 124.8 | 3.72 |
| Precious stones | 87.2 | 2.60 |
| Plastics and articles thereof | 78.2 | 2.33 |
| Furniture; bedding, mattresses, mattress supports, | 72.6 | 2.16 |
| Total | 3,356.8 | |

Source: WITS, World Bank, Bank of Baroda Research

## US tariffs: What has been announced?

To correct the alleged disparity on tariff and non-tariff measures, President Trump signed an Executive Order imposing a base 10% ad valorem duty on all US imports. Apart from this, additional tariffs were announced on several countries based on the principle of reciprocity, while also accounting for the perceived impact of non-tariff measures as well as currency distortions by partner countries. The formula used was that the tariff would be 50% of the imputed rate other countries charged on US exports. The tariff was calculated based on nominal rates as well as indirect barriers including currency distortions.

The new and old tariff rates for some of USA'S major import partners are presented in Table below. It can be seen that amongst major partners, South-East Asian countries such as, Vietnam, Thailand, Taiwan and Indonesia have been penalized the most, with tariff rates ranging between 32%-46%. Tariff rate on China has been increased to 34% (on top of existing 20%), while for India, the new tariff rate has been set at 26%. Amongst advanced economies, tariff rates on Switzerland, Japan, Korea and Eurozone has been the highest ranging between 31% to 20%. On the other hand, UK's imports have been taxed at a rate of 10%.

**Table 2: Major import partners for the US**

| Rank | Country | Imports by the US in 2024, US$ bn | % share in US imports in 2024 | Tariffs charged to the US (incl. currency manipulation and trade barriers), % | Adjusted reciprocal tariff, % |
|---|---|---|---|---|---|
| 1 | Mexico | 510.0 | 15.2 | NA | NA |
| 2 | China | 462.6 | 13.8 | 67 | 34 |
| 3 | Canada | 421.2 | 12.5 | NA | NA |
| 4 | Germany | 163.4 | 4.9 | 39 | 20 |
| 5 | Japan | 152.1 | 4.5 | 46 | 24 |
| 6 | Vietnam | 142.5 | 4.2 | 90 | 46 |
| 7 | Korea | 135.5 | 4.0 | 50 | 25 |
| 8 | Taiwan | 118.7 | 3.5 | 64 | 32 |
| 9 | Ireland | 103.8 | 3.1 | 39 | 20 |
| 10 | India | 91.2 | 2.7 | 52 | 26 |
| 11 | Italy | 78.4 | 2.3 | 39 | 20 |
| 12 | United Kingdom | 68.8 | 2.1 | 10 | 10 |
| 13 | Thailand | 66.0 | 2.0 | 72 | 36 |
| 14 | Switzerland | 64.0 | 1.9 | 61 | 31 |
| 15 | France | 61.1 | 1.8 | 39 | 20 |
| 16 | Malaysia | 53.8 | 1.6 | 47 | 24 |
| 17 | Brazil | 44.2 | 1.3 | 10 | 10 |
| 18 | Singapore | 43.6 | 1.3 | 10 | 10 |
| 19 | Netherlands | 35.0 | 1.0 | 39 | 20 |
| 20 | Indonesia | 29.5 | 0.9 | 64 | 32 |
| | **Total** | **3,356.80** | **100.0** | | |

Source: WITS, World Bank, White House Press Release, Bank of Baroda Research

**Threat to India**

In 2024, US imports from India stood at US$ 91.2bn. US majorly imports electrical machinery, pharmaceuticals, precious stones and machinery, from India which together accounted for close to 40% of USA'S total imports from India. Textiles is also another important export item for India.

**Table 3: India's competitors in US market (Imports in US$ bn)**

| Product name | India | China | Germany | Ireland | Japan | Korea | Taiwan | Vietnam | Total US imports |
|---|---|---|---|---|---|---|---|---|---|
| Electrical machinery and equipment and parts thereof | 14.4 | 127.1 | 12.0 | 2.8 | 19.2 | 20.7 | 32.5 | 42.6 | 485.9 |
| Pharmaceutical products* | 12.7 | 7.8 | 17.2 | 50.3 | 7.4 | 4.0 | 0.4 | 0.1 | 212.7 |
| Precious stones | 11.9 | 1.8 | 1.5 | 0.1 | 0.3 | 1.0 | 0.2 | 0.2 | 87.2 |
| Machinery and mechanical appliances | 7.1 | 85.1 | 34.3 | 1.2 | 36.1 | 26.5 | 57.9 | 29.2 | 531.2 |
| Organic chemicals | 3.6 | 8.9 | 2.8 | 25.7 | 1.5 | 2.5 | 0.7 | 0.0 | 71.1 |
| Textiles (including RMG) | 8.0 | 27.8 | 0.1 | 0.0 | 0.1 | 0.3 | 0.2 | 15.8 | 101.8 |
| Iron or steel articles | 2.8 | 13.2 | 2.7 | 0.0 | 1.8 | 3.4 | 3.5 | 1.4 | 52.7 |
| Vehicles | 2.8 | 18.0 | 34.9 | 0.0 | 51.3 | 45.4 | 3.2 | 1.1 | 391.5 |

Source: WITS, World Bank, Bank of Baroda Research | Note:* Reports suggest that pharma products have been exempted from higher tariffs as these are not domestically produced in the US

In the chart we have colored in green countries where tariffs are higher than 26% while the red represents tariffs which are lower than India's.

On an aggregate basis, since tariff rates imposed on AEs such as Germany, Ireland, Japan and Korea are lower than India, our export competitiveness is likely to be impacted. (However, the tariffs on them are still 20% and above).This is especially true for products such as electrical machinery, in which India is at a comparable level to Korea and Japan in terms of value of imports to the US. On the other hand, India is much better placed than EMs such as China, Taiwan and Vietnam which have been hit with a much higher tariff rate than India.

In fact, a higher tariff rate for China (34+20%), which remains the top supplier of almost all the items to the US, can be an opportunity for Indian exports, especially so for automobiles and chemicals. India also stands to gain market share in textile exports to the US, as tariff rates on Vietnam, a major supplier to the US have been increased substantially to 46%.

**What does it mean for the global world order and the US economy?**

The tariffs announced by the US have been much higher than market estimates. The finer details do include some exemptions on some key items such as pharmaceuticals, semiconductors and energy. Even so, these tariffs are likely to have wide ranging impact including rejig in global supply chains and tariff structure. While countries are expected to attempt to mitigate the impact of higher tariffs through negotiations as well as retaliatory tariffs, global inflation and growth is likely to be affected. Higher tariffs can stifle export margins and lead to lower production and growth. On the other hand, global inflation is also likely to inch up as countries announce retaliatory tariffs.

In the US, growth indicators are pointing towards a slowdown in the economy, with hushed mentions of a recession. Given the limited domestic production capacity, higher tariffs are likely to push up the cost of imports, thereby increasing inflation. This also poses a dilemma for the Fed amidst diverging growth and inflation dynamics. While two rate cuts are expected this year, with inflation risks increasing this possibility might not see fruition. This should mean that the dollar is likely to see high volatility, which in turn will weigh on other currencies as well.

Any slowdown in global trade due to these tariffs can cause a slowdown in export oriented countries including China which does not augur well for the world economy. There are talks of stagflation too in USA with higher prices and lower growth. However, it may be too premature to conclude thus.

**Impact on India**

India remains a domestic oriented economy with consumption accounting for ~60% of total GDP. On the other hand, merchandise exports accounted for only 12% of GDP in FY24.

- Assuming a 10% decline in value of India's exports to the US, the total impact on India's GDP growth is likely to be around 0.2%. However, exemptions on pharma products and also the possibility of a trade agreement can limit this impact. Further, there is also an opportunity for India's exporters to gain market share from other South-East Asian countries, in which case these tariffs could be marginally positive for India.
- Prima facie, the sectors which are likely to be impacted most are electronics, precious stones and machinery besides readymade garments.
- Further, since these sectors have a high concentration of MSMEs, the sector may face increased challenges, requiring possible government support. The government may be expected to come out with special schemes to buffer this impact.
- Profitability of companies in these sectors would need to be monitored as they can get affected due to export turnover coming down or prices being reduced to maintain competitive edge. This is something which banks would also need to monitor given their exposures to these sectors.
- The impact on inflation will largely flow from the currency channel. Based on how the US dollar behaves, we can expect volatility in the exchange rate. Our analysis had earlier showed that the impact of currency depreciation is muted and is felt largely on WPI inflation. In fact, our analysis showed that a 10% depreciation in INR can lead to a ~0.12-0.16% increase in WPI in the short run, and 0.38%-0.49% in the long-run.

Overall, the direct impact of higher US tariffs on India looks fluid as of now. It all depends on whether exports come down and to what extent. As higher tariffs have been imposed on all countries, the disadvantage for India could be muted to an extent. If US domestic production increases and imports in general come down, then it will mean a negative impact. On the issue of other countries with lower tariffs substituting Indian exports, the scope is limited though present.

The indirect impact through the currency route and possibly the Fed route is something which is a concern as the year can be typified as being a repetition of 2024 where volatility was pervasive.

To conclude, given the good diplomatic relations between the two countries, the progress on finalizing a mutually beneficial trade deal by end 2025 is expected to be quick, which will further limit the impact. However, India is unlikely to remain unharmed from the bouts of volatility in global financial markets, which will have an impact on domestic markets as well.

## Annexure

### Table A.1: US major import from India

| Product name | US Imports from India in 2024 | Share in Total imports from India |
|---|---|---|
| Electrical machinery and equipment and parts | 14.4 | 15.8 |
| Pharmaceutical products | 12.7 | 14.0 |
| Precious stones | 11.9 | 13.0 |
| Machinery and mechanical appliances | 7.1 | 7.8 |
| Organic chemicals | 3.6 | 4.0 |
| Mineral fuels, mineral oils and products of their distillation | 3.2 | 3.5 |
| Textiles, made up articles; sets; worn clothing and worn textile articles; rags | 3.1 | 3.4 |
| Iron or steel articles | 2.8 | 3.1 |
| Vehicles | 2.8 | 3.1 |
| Apparel and clothing accessories; not knitted or crocheted | 2.5 | 2.8 |
| Apparel and clothing accessories; knitted or crocheted | 2.4 | 2.6 |
| Fish and crustaceans, molluscs and other aquatic invertebrates | 2.0 | 2.2 |
| Commodities not specified according to kind | 1.4 | 1.6 |
| Furniture; bedding, mattresses, mattress supports | 1.4 | 1.5 |
| Plastics and articles thereof | 1.4 | 1.5 |
| **Total** | **91.2** | |

Source: WITS, World Bank, Bank of Baroda Research