Reciprocal tariffs of USA

Mains (GS II) – Effect of policies and politics of developed and developing countries on India's interests

Why in news?

Recently, US President Donald Trump celebrated America's Liberation Day on April 2 by announcing reciprocal tariffs against all major trading partners.

What are the tariffs announced by Trump?

- **Reciprocal tariff –** It is a tax or trade restriction that one country places on another in response to similar actions taken by that country.
- If one country raises tariffs on goods from another, the affected country might respond by imposing its own tariffs on imports from the first country.
- **USA discounted reciprocal tariffs** – In the context of USA it is termed as USA discounted reciprocal tariffs.
- USA calculates Reciprocal tariff by estimating the tariff each country charges on American imports and then halving that amount.
- There were two sets of tariffs announced,
    - Base tariff
    - Country-specific tariff
- **Base tariff** – It is *10% on all imports* and it is common for all countries that is imposing tariffs on US goods.
- This base rate of tariffs will go into effect on **April 5**.
- **Country-specific tariff** – It is specific for each country and is calculated by estimating tariffs each country charges on US goods.
- It also took account on factors such as currency manipulation, lax pollution and labor laws and harsh regulations that create difficulties for the US in global markets.
- These country specific tariffs will be enforced from **April 9 onwards.**
- **Tariff structure on India** – According to US trade department, India imposes a 52% tariff on U.S. imports, and in response, the U.S. ***has levied a reciprocal tariff of 26%*** on Indian goods.

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

Source: White House, IMF, Indian Express Research

Why is USA imposing such tariffs?

- **Addressing trade deficit** – The tariffs aim to address a $1.2 trillion trade deficit and revive local manufacturing in the US.

  Trade deficit is the gap between the value of a countries imports and exports.

- **Reduce reliance on foreign goods –** It is believed that tariffs will incentivize companies to relocate production domestically.

- **Economic benefits and debt reduction** – The revenue generated by tariffs is expected to help reduce taxes and pay down the national debt, strengthening the U.S. economy.
- **Attracting investment** – It is estimated that tariffs will lead to $6 trillion in investments in USA.
- **Bringing back manufacturing and jobs** – By making foreign goods costlier, the policy aims to encourage both domestic and foreign companies to invest in U.S.-based manufacturing.

What are the impacts of the tariff for India?

Positive Impacts
• **Relative advantage** – India could remain competitive in the U.S. market as competitors like China (34%), Vietnam (46%), Taiwan, and Thailand (36%) face higher tariffs than India (26%). - It could potentially boost India's export share. • **Boost in textile exports** – India may gain a comparative advantage over Vietnam, Bangladesh and China to access the American textile market. - US accounts for 20% of Bangladesh's total ready-made garment exports. • **Trade balance flexibility** – India's low electronics imports from the U.S. provide room to adjust tariffs strategically, helping maintain trade balance. • **Relaxation to pharma** – The US Administration has exempted pharmaceuticals from reciprocal tariffs, highlighting the significance of affordable, life-saving generic drugs. - India exports USD 8.7 billion pharma products to US annually.
Negative Impacts
• **Challenges to exports** – India's exports will face difficulties ***US is India's 2nd largest trading partner*** in FY24. - U.S. accounts for 18% of India's total goods exports. • **Increased price** - Increased tariffs will increase the price of Indian goods in America. • **Decline in export** - This may result in decline of import of Indian goods in USA. • And the country's exports to the US could fall by 2-3 % points in the current fiscal, according to some experts. • **Domestic industry pressure** – The decline in export to USA could disrupt domestic industries and reduce the profit margins. • **Economic slowdown** – According to some experts, the reciprocal tariff could shave off India's GDP growth rate by up to 50 basis points to 6 % and. • **Financial impact** – If India's export to US declines, it will affect the repatriation of US dollars to India. • This may in turn prevent the strengthening of Indian rupee against US dollar and weaken it.

What are the consequences of tariffs for U.S.A and global economy?

- **Slow down in global growth** – The speed and scale of these tariff hikes could further slow global growth, create market uncertainty, and pressure businesses worldwide.
- **Higher inflation** – Tariffs imposed on goods will be passed on to end user which raises the goods price resulting in inflation.
- Inflation can be avoided only if the dollar strengthens significantly (e.g., by 26%

against the rupee, from 85 to 108), keeping import prices stable for U.S. consumers.

- **Disrupts trade flows** – Tariffs will increase the costs for importers in US which affects exporters globally, forcing them to either absorb losses or pass costs to U.S. consumers.
  - It will further reduce demand and alter trade volumes.
- **Stagflation and recession in U.S** – A combination of faltering growth and spiking inflation could lead to stagflation.
- Reduced demand combined with costlier imports, could shrink GDP further, and may lead to recession in US.

> *Stagflation — stagnant growth with persistent high prices (inflation).*

- **Supply chain reconfiguration** – Exporting countries may seek alternative markets which will disrupt established supply chains.
- **Risk of retaliation** – Countries might retaliate back on US which will create an escalatory spiral that could further complicate global trade environment.

What lies ahead?

- The ongoing Bilateral trade agreement negotiations, provides a platform to address tariff concerns, potentially securing exemptions or reductions by offering U.S. market access in areas like agriculture or services.
- Tariff war needs to be avoided to prevent mutual economic harm as it would be self-defeating and will impose clear costs on both India and the U.S.
- India could de-escalate tensions and foster better trade relations by diplomatic negotiations.

References

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