

Trump Imposes Reciprocal Tariffs from April 2: Impact on India & Global Trade

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What's in Today's Article?

- Trump's Reciprocal Tariffs on India Latest News
- Announcement of Reciprocal Tariffs
- Analysis of the Tariffs: Kindness or Economic Strategy
- India and the US Tariffs
- Silver Linings for India Amidst Trump's Tariff Storm
- Trump's Reciprocal Tariffs on India FAQs

Trump's Reciprocal Tariffs on India Latest News

- On April 2, US President Donald Trump marked "Liberation Day" by announcing reciprocal tariffs on major trading partners.

- President Trump's tariffs mark a protectionist shift more intense than the 1930s Smoot-Hawley Act, which had worsened the Great Depression. The reciprocal tariff logic implies more hikes if other nations retaliate. Experts fear there is only two paths from here: either negotiation or escalation.

Announcement of Reciprocal Tariffs

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

• Base Tariff

- A **10% base tariff** will be imposed on all countries.
- This is a significant increase from the **pre-Trump tariff rate of 2.5%**.
- The base tariff will take effect from **April 5**.

• Country-Specific Tariffs

- Additional tariffs will be applied based on how much each country charges on US goods.
- These tariffs are set at **half the rate** of what the US estimates other countries impose.
- President Trump cited American "kindness" as the reason for this **discounted approach**.
- These tariffs will be enforced from **April 9**.

Analysis of the Tariffs: Kindness or Economic Strategy

- **Disproportionate Impact on Low-Income Countries**

- Cambodia, with a low per capita income of \$2,950 and contributing just 1% to the US trade deficit, faces the highest tariffs.
- Bangladesh, with an even lower per capita income and only 0.5% of the US trade deficit, faces a 37% tariff.

- **Lighter Tariffs on Major Deficit Contributors**

- China, which accounts for 25% of the US trade deficit, faces a 34% tariff.
- The EU, responsible for 20% of the deficit, faces a 20% tariff.
- Only three regions (China, EU, and Vietnam) contribute double-digit shares to the US trade deficit.

- **Wealthier Nations Not Exempt**

- Countries **richer than the US per capita** (Switzerland and Singapore) also face tariffs.

- **Trade Surplus Countries Also Affected**

- Even countries where the US enjoys a trade surplus—like the UK, Brazil, Singapore, and Colombia—face sharp tariff increases.

India and the US Tariffs

- India has been smacked with a tariff rate of 26%.

Key Concerns Raised by the US

- **High and Unpredictable Tariffs**

- India's WTO-bound agricultural tariff rates average 113.1%, going up to 300%.
- Frequent tariff hikes without prior notice create uncertainty for US exporters.
- Tariffs were increased in multiple budgets on solar products, telecom equipment, and consumer electronics.

- **Regulatory and Policy Barriers**

- **Lack of transparency** in tariff announcements and trade regulations.
- **No uniform government procurement policy**, leading to inconsistent practices.
- Inadequate intellectual property (IP) enforcement.

- **Foreign Investment and Market Access Restrictions**

- **FDI restrictions in retail** and **dominance of state-owned banks** (holding 60% market share).
- **Unequal competition** in the insurance sector, with state-owned firms enjoying government support.

- **Agriculture and Subsidies**

- **Extensive subsidies** (credit waivers, crop insurance, and input subsidies) distort market competition.

- **Digital and Trade Barriers**

- **Frequent internet shutdowns** disrupt commercial operations and **hinder digital trade**.
- **Lack of transparency** in regulatory changes, often without proper WTO notification.

Silver Linings for India Amidst Trump's Tariff Storm

- **Comparative Advantage Over Key Export Rivals**

- Initially, President Trump announced a **26% reciprocal tariff** on India. However, the final executive order's annexure later revised this to 27%, reflecting a slight upward adjustment in the tariff rate.
- This is significantly lower than tariffs imposed on China (34%), Vietnam (46%), Bangladesh (37%), Thailand (36%), and Indonesia (32%).
- India's key export sectors like textiles and garments may gain a competitive edge over these nations in the US market.
- Though some nations like Japan, South Korea, and the EU face lower tariffs, they don't compete directly with India in most export categories.
- Moreover, pharmaceuticals — India's biggest export to the US — are exempted under the executive order.

- **Scope for Bilateral Negotiation**

- The Trump administration has left room for revision of tariffs if trade concerns are addressed.
- India is already in talks with the US for a bilateral trade deal, aiming to finalize the first phase by October.

- **India's Pragmatic Non-Retaliatory Approach**

- While countries like EU, Japan, Australia, and China may retaliate, India is unlikely to do so given its relatively lower tariff burden and ongoing trade talks.
- Retaliation could trigger a damaging tariff war, which India appears keen to avoid.
- Instead, India could use this opportunity to:
 - Reduce its own high tariffs
 - Negotiate trade concessions with both the US and other partners
 - Dismantle arbitrary non-tariff barriers recently imposed

- **Conclusion**

- The tariffs may act as a wake-up call to make domestic policy more transparent and predictable, especially in areas like tariffs, FDI, IP enforcement, and digital regulation.

Trump's Reciprocal Tariffs on India FAQs

Q1. What is the base tariff rate under Trump's new policy?

Ans. A 10% base tariff will be imposed on all countries, a significant increase from 2.5%.

Q2. How does India's tariff rate compare to other countries?

Ans. India faces a 26% tariff, which is lower than China's 34%, Vietnam's 46%, and Bangladesh's 37%.

Q3. Which Indian export sector benefits from Trump's tariffs?

Ans. Textiles, garments, and pharmaceuticals (India's largest export) are positively impacted, especially in comparison to other nations.

Q4. How has India responded to Trump's tariffs?

Ans. India is focused on bilateral negotiations, aiming to reduce high tariffs and improve trade relations with the US.

Q5. What is the potential impact of India's pragmatic approach?

Ans. India's non-retaliatory stance helps avoid a trade war, allowing space for negotiation and potential tariff reductions.

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