SOCIO-ECONOMIC VOICES

Impact of Trump Tariffs on Global Trade and Indian Economy

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Despite US-China trade war of 2018, pandemic covid-19 and deepening geo-political developments, India's share in global exports increased from 2% in 2018 to 2.5% in 2024 and GDP growth remained highest among the major economies. Again, the recent trump tariffs and disruptions in supply chain are expected to strengthen India's economy and trade trajectory on the back of India's strategic policies and calibrated steps.

Impact of Trump tariffs on global trade will be huge vis-à-vis troubled supply chains and price competition in the US market. The disturbed supply chains will have impact on global GDP; the 2018 trade war between US and China had an impact of 0.8% (about 1 trillion) on global GDP.

Some of the low cost producing countries, imposed with lesser trump tariffs, will have advantage to compete in the US market, subject to their strong connect with the global supply chains. After the trade war of 2018, India gained from the re-adjusted global supply chains and India's share of exports in the global exports increased from 2% in 2018 to more than 2.5% in the recent years.

However, the new tariffs regime by Donald Trump to protect the American manufacturing and industries will have severe implications for the US economy with increased inflationary expectations and lesser room for reduction in the fed rates which are significantly high in an era of global economic uncertainties vis-à-vis deepening geo-political developments.

As India's economic resilience remains intact vis-à-vis high economic growth trajectory with a more than 7.5% GDP growth during the last f4 years from FY 22 to FY 25, is placed better in such a quagmire of global economic and geo-political headwinds.

Impact of Trump Tariffs on Global Economy

Strategy behind the Trump tariffs is to improve the US trade balance, which is in severe deficit of about USD 914 billion in 2024 with high tariffs on the imports from the World and incentives to the domestic producers to produce at the competitive prices. But this strategy is full of risks and uncertainties as high tariffs on the import products will cause increased costs to consumers and producers through final products and raw materials respectively. This will impact the retail sales and the production possibilities by the producers as the cost of production will rise vis-à-vis increased costs of production and investment activity also slows down which impact the employment scenario.

High tariffs disrupt the global supply chains and lead to trade slowdown as advantages of trade becomes less attractive. Slowdown in trade impact the World economy through various channels as it makes the goods more expensive and less attractive with increased tariffs. It creates trade fragmentation and impact the countries which are highly dependent on exports in terms of less revenue, less production and deceleration in new job creation.

India's competitive position in the global trade arena

Amid these global shifts, India appears to be better positioned. While countries such as Vietnam, Myanmar, Sri Lanka China, Bangladesh, and South Africa are expected to face steep tariff rates—ranging from 31% to as high as 46%—

India's exposure remains limited, with tariff rates hovering around 26–27%. This comparative advantage enhances India's competitiveness in the US market.

This advantage becomes particularly relevant in labour-intensive sectors such s companies rethink their sourcing strategies in response to rising tariffs and geopolitical uncertainties, India stands out as a viable alternative due to its comparative costs advantages. The ongoing shift in global supply chains, accelerated by the covid pandemic of 2020 and now by tariff realignments vis-à-vis trump tariffs, presents India with a strategic opportunity to enhance its share in global exports. At this juncture, India's approach should be to strengthen the supply chains more and more and to reduce the costs of doing business to make the domestic enterprises mor e and more competitive in the international market.

According to the various industry estimates, India's labour intensive sectors or products would be in highly advantageous position such as textiles, garments, apparels, makeups, footwear, furniture. The electronics products will be competitive via-a-vis India's recent focus on development of electronics in the high tech zone and a great breakthrough in the mobile manufacturing and exports. The sectors such as pharmaceutical, steel, aluminium, copper, automobiles and auto components will be in neutral zone as there will not be a major hike in tariffs as compared with tariffs imposed on India's competitors in the US market. However, the products such as marine products, tea, bakery products, dairy products, spices, guar-gum, honey and carpets, medical devices are expected to have some impact of the high tariffs. Gems and jewellery sector may also heel some heat in terms of increased tariffs. Overall, India is expected to gain from the Trump tariffs as history of the previous trade war reveals that India has been in the advantageous position of the trade tussle between US and China.

In Since the US- China trade war of 2018, between 2018-19 and 2024-25, India's exports of goods and services grew from USD 535 billion in FY2018-19 to USD 824 billion in 2024-25. During the same period, global exports increased from USD 25,200 billion in 2018 to USD 33000 billion in 2024.

India's share in global exports rose from 2% in 2018-19 to 2.5% in 2024-25, indicating India's significantly improved presence in global exports of goods and services despite the global trade headwinds due to covid-19 and many geo-pollical developments thereafter.

India's share in World exports of goods and services

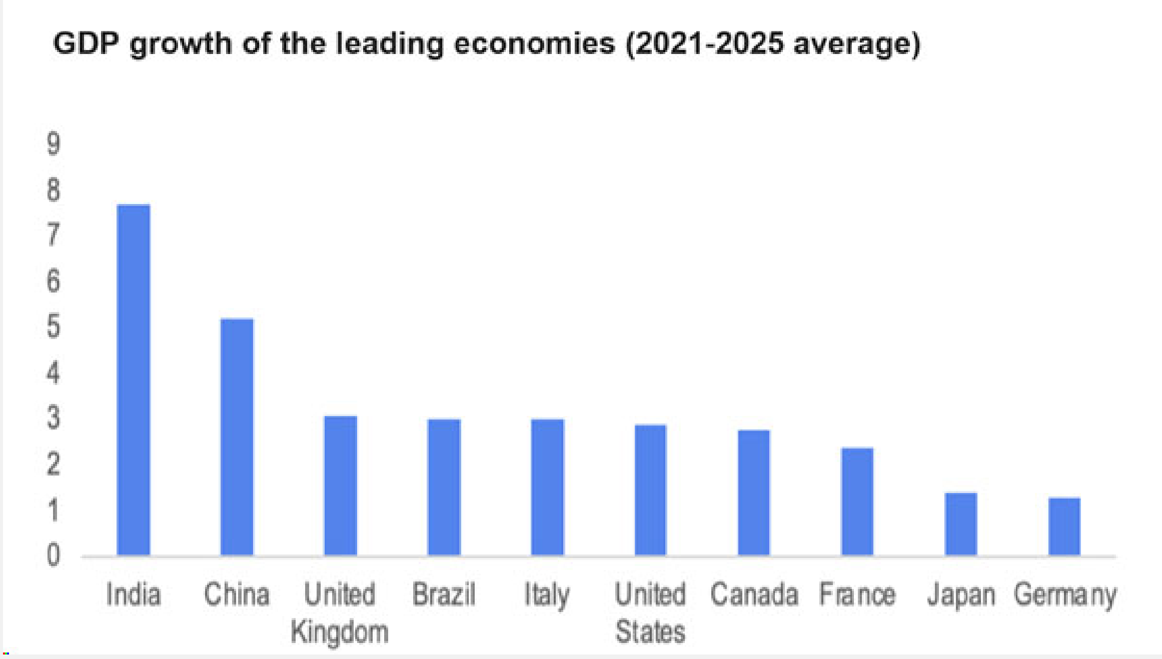
Year	Global exports of goods and services USD Billion	India's exports of goods and services USD Billion (Financial Year)	India's share in World Exports
2018	25200	535 (FY 2019)	2
2024	33000	824 (FY 2025)	2.5

Source : Trademap ; Note : Date for India are for the financial years FY 2018 and FY 2025

Factors boosting India's economic resilience despite the global headwinds

India's economy remains resilient despite such global economic and geo political headwinds with the support of strategic policy environment and the calibrated steps by the government and the RBI. As India's share of exports increased significantly from the pre covid years to post covid years and in the more recent years, the growth of the economy also remained resilient.

The growth rate of GDP during the last four financial years remained above 7.5% (average) of which GDP grew at 9.7% in 2021-22, 7% in 2022-23, 8.2% in 2023-24 and 6.5% in 2024-25 (projected). India's growth rate of GDP during the last five years was significantly high as compared with the top ten major economies in the World. India's growth of GDP is significantly high as compared with the growth rate of China during the last four years and in the current year of 2025.



Source : Compiled from IMF

India's growth is supported by its inherent strengths such as a strong consumption trajectory, vibrant MSMEs sector and strong agriculture sector. The economy is supported by a strong demand trajectory, growing young population, increased level of incomes and urbanisation process. Despite the severe global headwinds, India's internal strengths remain strong on the back of strong domestic fundamentals. The recent slew of reforms in the covid and post covid years such as ease of doing business, digitalisation, labour laws, PLI and reforms for MSMEs have made India an attractive destination for domestic and foreign investments.

In the recent months, the inflation trajectory has come down significantly which is now significantly below 4%, very much in the comfort zone of RBI. The benign inflationary conditions are expected to create a further scope for the repo rate cut in the coming time to provide a support to the economy in the era of global uncertainties and deepening geo-political headwinds.

India is better positioned now as compared with many of its competitors in the global markets. The effective policies paved the way for increased competitiveness with the support of improved ease of doing business and reduced costs of doing business. Improving logistics, streamlining regulatory approvals, and enhancing port infrastructure are supporting Indian products to compete on price and delivery timelines. Also, India is looking beyond traditional Western markets and expand its trade relations with regions like Latin America, Africa, Middle East and Southeast Asia. A more diversified export basket and will help mitigate external risks.

India is expected to gain from the recent disruptions in the supply chain with the support of various reforms and the strong and promising sectors of the Indian economy such as electronics, pharmaceuticals, renewables and many other labour intensive sectors. The ongoing bilateral trade deal with US is expected to bring fruitful results and strengthen India economic relations with US through tariff rationalisations, market access and ease of doing business. India's supply chains will become stronger with a greater access of goods and services. The deal is also expected to bring opportunities in the areas of digital trade, clean energy and intellectual property.

Conclusions

While the Trump tariffs and an expected global and US economic slowdown will have some short term impact on India, particularly in exports and services, the country's strong domestic fundamentals bolstered by structural reforms, a young population, and resilient consumption position it as a bright spot in the global eco-system. Continued investment in infrastructure, education, and healthcare will help India convert global disruptions into long-term opportunities. Going ahead, India's reform momentum and strategic strengths offer a promising path to India's greater global economic integration.

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