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TRUMP RETURNS: IMPLICATIONS FOR THE INDIAN ECONOMY

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Donald Trump sworn in as the 47th president of the United States (US) once again, reflecting a President's comeback after his previous loss of power, reinforcing his place within the Republican Party with a slogan "America First" policy, leaving the rest of the world a bit edgy.

The immediate declaration from the new US President is that he wants a clear stance regarding the dollar's dominance. He made it clear that US would impose 100 per cent import tariffs on the BRICS countries if they took any steps towards cutting the use of the dollar in global trade. The BRICS nations include Brazil, Russia, China, South Africa and India.

He emphasised his stance regarding this by highlighting "As a BRICS nation...they'll have a 100 per cent tariff if they so much as even think about doing what they thought, and therefore they'll give it up immediately", making a reference to the reduced usage of dollar bill in global trade."



Trump emphasised that his statement should not be seen as a threat but rather as a clear stance on the issue.

India, however, expects its purchase of US energy products to increase after President Donald Trump's announcement to maximise US oil and gas production.¹

Earlier in his inaugural speech, Trump highlighted that his administration would establish an “External Revenue Service to collect all tariffs, duties and revenues” in order to “tariff and tax foreign countries to enrich our citizens”. His “America First Trade Policy” that includes imposing global ‘supplemental tariffs’ to address what he termed “unfair and unbalanced trade.”

Trump also said that he planned to impose a 25% tariff on products from Canada and Mexico starting 1st February 2025 as those nations were permitting “mass numbers of people to come in and fentanyl to come in.” He further said that he ‘may’ impose a universal tariff on all imports, adding that ‘essentially all countries take advantage of the US.’ The tariff plan could imply higher car prices for US consumers and may affect automakers globally.

The US labour market remained strong in December 2024 that was released on 10th January 2025. The U.S. economy added 256,000 jobs in December 2024, much higher than anticipated. U.S. employment grew by about 2.2 million jobs, or 1.4%, year-over-year (YOY). The employment gains remained robust in healthcare (+46,100), government (+33,000) and social assistance (+23,400).²

Nonetheless, globally bond markets remain in jittery. The possibility of the further monetary policy easing sent bond yields to 12-month highs, serving as a reminder that borrowing costs will castigate the most highly indebted governments. Stocks traded lower after outperforming through 2024. Ahead of the US non-farm payrolls global spillovers, the US dollar paused temporarily after its persistent increase that has posed severe challenge for the currencies across the world.

Global corporate debt sales have climbed to a record US \$8 trillion in 2024. The issuance of corporate bonds and leveraged loans increased by more than a third compared to 2023. A steady stream of issuances is expected through 2025 coupled with large-scale mergers and acquisitions financed by debt.³

The crypto and Artificial Intelligence (AI) are back to their boon period, thanks to the newly elected US President era. The Oracle, in partnership with OpenAI and SoftBank Group, has announced a significant investment of up to \$500 billion to develop artificial intelligence (AI) infrastructure in the U.S. This initiative, named “The Stargate Project”, a \$500 billion investment in AI infrastructure.

¹ <https://www.deccanherald.com/business/india-sees-rise-in-us-energy-imports-following-trumps-announcement-oil-minister-says-3365734>

² US Bureau of Labour Statistics.

³ Financial Times (27 Dec 2024).

Such a substantial investment underscores the growing importance of AI in the tech industry and could have long-term implications for the sector.

Implications for India

There is a pointer in the “America First Trade Policy” that is published on 20th January 2025, which might have potential to benefit countries like India via Free Trade Agreements (FTA), which states as follows:

“The United States Trade Representative shall review existing United States trade agreements and sectoral trade agreements and recommend any revisions that may be necessary or appropriate to achieve or maintain the general level of reciprocal and mutually advantageous concessions with respect to free trade agreement partner countries. The United States Trade Representative shall identify countries with which the United States can negotiate agreements on a bilateral or sector-specific basis to obtain export market access for American workers, farmers, ranchers, service providers, and other businesses and shall make recommendations regarding such potential agreements.”⁴

In this context, India is persuaded by the shift in the stance of the United States (US) administration under President Donald Trump to engage with countries in negotiating bilateral free-trade agreements (FTAs) for greater market access, which appears to be a “positive development” for India.

The migration issue with Trump remains unpleasant. India may have to bring back Indian citizens living in US lacking legal permit due to Trump’s stringent nationalist policies.

Indian Economic Developments-Boosting Urban demand might be explored for the sustained growth:

In India, the first advance estimates for 2024-25 released by the National Statistics Office (NSO) on 7th January 2025 indicates gross domestic product (GDP) growth has moderated to 6.4 per cent, reflecting the effect of many contrair factors in the first half of 2024-25. Private capex is yet to show visible signs of pick-up. The growth in general government capital expenditure (public capex) is also subdued. The GOI is expected to exceed its fiscal consolidation target, ending the year at 4.8% of GDP compared to 4.9% budgeted for the current fiscal, due to the lower capex amid election year. The manufacturing sector in gross value added (GVA) shows disappointing growth that dragged down the growth. Demand concerns in Urban areas that were flagged by most FMCG companies in the Sept'24 quarter are getting worse. Dec'24 quarter earnings of the company, namely the Hindustan Unilever Ltd (HUL) the country's largest FMCG company points that Indian urban middle-class households cut back on expenditure, shifting to small packs from large packs. The company projected its EBITDA margin to remain at the lower end of the 23-24% range in the future, which indicates that urban demand woes may persist for some time. With agriculture and allied activities turning in a reasonable performance on the back of a record kharif harvest, and with higher rabi sowing, the fortunes of the rural economy have improved, though.

⁴“America First Trade Policy” (20 January 2024) <https://www.whitehouse.gov/presidential-actions/2025/01/america-first-trade-policy/>

Overall, the unfolding of Trump's policies is yet to be observed. Nonetheless, as discussed earlier, there are couple of tailwinds for the Indian economy, for instance, the growth potential for the artificial intelligence (AI) and tech industries could be high, the free trade agreements (FTA) can enhance growth if strategically executed.

Importantly, it would be also challenging for the US President for his pre-announced tariff plans, as US might be a net loser due to retaliatory tariffs from other countries, and strategic bilateral trading among countries barring US, which may not be sustainable growth policy for the US itself.