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## **“APRIL FOOL’S” JOKE SIDELINED, “TARIFF” CHALLENGES ARE LOOMING**

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The return of the Trump-era after the US election has unnerved global market in as much as market is continuously trying to assess the future course of actions. Experts argue that behind such ‘tariff terrorism’ the fundamental objectives of Trump are- asset monetisation, lower crude prices, lower rates, weaker dollar, return of manufacturing to US are his core interests.

As highlighted by the RBI March bulletin *“The global economy, which entered 2025 on a strong note of resilience, is caught in a storm of escalating trade tensions and a heightened wave of uncertainty around the scope, timing, and intensity of tariffs. What is more certain, however, is that trade wars and escalating tariffs could have a deleterious impact on growth and fuel inflation, not just in the countries directly involved but for the global economy as a whole.”*<sup>1</sup>



The World Uncertainty Index (WUI) has shown steady increase that increases up to 48816 in Feb’25 slightly lower than its previous peak at 56226 during March’20 (Covid crisis period).<sup>2</sup>

<sup>1</sup> RBI March 2025 Bulletin, “State of the Economy.”

<sup>2</sup> [https://worlduncertaintyindex.com/?subscribe=success#subscribe-blog\\_subscription-5](https://worlduncertaintyindex.com/?subscribe=success#subscribe-blog_subscription-5)

According to the budget lab of the Yale University, the US real GDP growth is 0.6-1.0pp lower in 2025. In the long run, the US economy is persistently 0.3-0.6% smaller, the equivalent of \$100-175 billion annually in 2024\$.<sup>3</sup> According to the study, with retaliation, the aggregate price level could increase by 1.6% in US, with electronics, pharmaceuticals, and clothing, automobile, crude oil, energy & transportation goods would be most vulnerable from the inflation point of view.

Copper stomped past its key threshold of \$10,000 a ton after weeks of global trade disruption triggered by President Donald Trump's push for tariffs on the crucial industrial metal. Trump ordered the US Commerce Department to investigate the nation's imports of copper with consideration of imposing duties. Since then, US prices have jagged and traders have grumbled to send metal to America ahead of any tariffs, along with reducing availability in the rest of the world.

Moreover, a 25% import tax on imported cars (not manufactured in US) is on the pipeline and would be effective since 2 Apr'25, as declared by the US President Donald Trump. The new measure, set to begin on April 2, will apply to foreign made cars and light trucks having free trade agreements (FTAs) with the US including Canada, Mexico and South Korea. Japan, EU, Germany, Italy and UK will also be impacted by this tariff. It could affect the United States-Mexico-Canada Agreement (USMCA) and US-South Korea Free Trade Agreement (KORUS FTA).

The showpiece remains April 2, which Trump has labelled "liberation day" when reciprocal tariffs will be formally announced. However, in a shift of tone, Trump now says the measures will be "very lenient," and "less than the tariff they've been charging (the US) for decades," hinting at a softer-than-expected rollout.

In an interview, Trump has stated "I will probably be more lenient than reciprocal because if I was reciprocal that would be very tough for people. There are some exceptions and it's an ongoing discussion...but not too many exceptions."

According to media reports, the "2025 Annual Threat Assessment (ATA)" (a US intelligence agency) report has highlighted that some transnational criminal organisations (ICOs) are trafficking illicit drugs which are endangering US citizens. Mexico based TCOs remain the dominant producers and suppliers of illicit drugs including fentanyl related drugs. It also links China and India as sources of precursors and equipment of drug traffickers.<sup>4</sup>

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<sup>3</sup> <https://budgetlab.yale.edu/research/fiscal-economic-and-distributional-effects-illustrative-reciprocal-us-tariffs>

<sup>4</sup> "US intel links India to fentanyl trafficking" (27 March 2025) Press Trust of India (PTI), reprinted in Business Standard.

India is in the process of negotiations and may reduce tariffs on more than half of US imports worth \$23 billion, calculating that such reciprocal tariffs would hit 87% of its total exports to the US worth \$66 billion.

India is exploring reducing tariffs on 55% of US goods it imports which are now subject to tariffs ranging from 5%~30%. The US trade weighted average tariff remains around 2.2% while India's remains at 12%.

During Prime Minister's visit to the United States on February 13, 2025, both nations agreed to negotiate the first stage of a multi-sector Bilateral Trade Agreement (BTA) by the fall of 2025. The WTO's World Tariff Profiles (WTF) 2024 report has highlighted that South Korea, Turkey and India levy the highest MFN tariffs on agricultural products.

The U.S. tariffs present both challenges and opportunities for India. While some sectors may struggle, India's strong domestic demand, export diversification strategies, and diplomatic negotiations could help mitigate the impact. By adopting a non-retaliatory approach and engaging in bilateral trade discussions, India seeks to protect its economic interests while strengthening long-term trade relations with the U.S. The success of PM Modi's diplomatic efforts and India's strategic tariff adjustments will be crucial in shaping the future trajectory of India-U.S. trade relations. However, 2 April 2025 will be the crucial date to understand the future trajectory in this regard.