

## Reciprocal Tariff Announcement & Market Implications

Dear Investors,

We wanted to provide you with a detailed update on the **recent announcement by President Trump** regarding his “**reciprocal tariffs**”. This move has far-reaching implications for global trade and the U.S. economy. Below is an overview of the tariff structure, its potential effects, and our preliminary thoughts on how this may impact the global and Indian markets.

### Reciprocal Tariff Details:

White house has imposed reciprocal tariffs – 10% being baseline tariffs, but higher for most countries. Key highlights include:

- **India:** 26%
- **China:** 34% additional to 20% existing tariffs; bringing total tariffs to 54%
- **Vietnam:** 46%
- **Bangladesh:** 37%
- **Indonesia:** 32%
- **European Union:** 20%
- **United Kingdom:** 10%

### Preliminary Thoughts:

The **announcement of reciprocal tariffs** is finally here, and while the immediate market reaction has been negative, much of the downside has already been priced in by the markets. In the **next month**, we expect more clarity as other countries either enter into **trade agreements** with the U.S. or **retaliate** with measures of their own. However, retaliating with tariffs will be difficult for many countries, as in most cases, the **tariffs they have imposed on U.S. imports are already higher** than the tariffs the U.S. has now imposed on them. This could limit the scope for retaliation.

### Can the U.S. Compete on Manufacturing?

One key consideration in the impact of these tariffs is whether **U.S. manufacturing can replace imports** with domestically produced goods that are **cheaper** or at least competitive with the tariff-inclusive prices of imports. The answer remains **challenging**. The U.S. has **limited manufacturing capacity** in some industries, and even with tariffs, domestic manufacturing costs are **often higher** than what importing nations can offer.

Thus, even with **reciprocal tariffs** in place, **U.S. companies** may still be forced to **import goods** from these countries or face **higher prices** due to the **lack of domestic production** capacity. This also raises questions about the long-term sustainability of tariffs as an economic policy, as **higher costs** could lead to **inflationary pressures** in the U.S.

## U.S. Economic Outlook:

- The higher tariffs could drive **inflation** in the short term, leading to **higher interest rates** and a potential **slowdown** in U.S. consumer demand. A **recession risk** is also on the horizon, which may push the U.S. administration to reconsider the policy.
- **Global economic risks** are also increasing. A broad slowdown due to reduced global trade could exacerbate the situation, especially in emerging markets, with a potential spillover effect on capital flows.

## Sectoral Impact and Exemptions:

While some sectors may see substantial direct impacts, **exemptions** from the tariffs will provide some relief:

- **Pharmaceuticals:** Exempt from tariffs, which could position India's pharma sector relatively better among exporters.
- **Automobiles & Components:** Although **25% tariffs** had already been imposed on cars and parts, additional tariffs could still impact **auto component exporters**.
- **IT Services:** No direct impact, but the potential for **slower U.S. growth** could affect discretionary spending and delay recovery in the services sector. IT is poised for massive underperformance
- **Textiles:** While **26% tariffs** on textiles are significant, India's **relative advantage** is that competing nations like **China, Bangladesh, and Vietnam** face even higher tariffs.

## Currency Devaluation Risk:

It is important to highlight that while countries like **China, Vietnam, and Thailand** face significantly higher tariffs (as compared to India) they may take countermeasures, including **currency devaluation**, to maintain their competitive edge in global markets. This could potentially offset some of the benefits that India might see due to its lower tariff rate.

In particular, **China** has already engaged in currency devaluation in response to past tariff pressures, and **Vietnam** and **Thailand** may follow suit if these tariffs are implemented. A **weaker currency** in these countries could make their exports even more competitive relative to India's, thereby limiting any advantages India might gain from relatively lower tariffs.

## Impact on India:

India is impacted by the tariff changes, but on a relative basis stands better-off as compared to countries like China, Vietnam, and Bangladesh. While the shift in global supply chains has not yet fully materialized, these tariffs could act as a catalyst, leading to a shift in manufacturing to India as a preferred destination over China, Vietnam, and Bangladesh. If these countries are unable to fully offset the tariff impact through currency devaluation, India could see a greater influx of manufacturing activity, particularly in electronics, textiles, garments, etc. Additionally, India's pharma sector (which is a key export segment to US) benefits as pharma has been exempted from tariffs.

On the flip side, China potentially dumping goods into the Indian market remains a challenge, which could lead to price undercutting and competitive pressures on Indian manufacturers. Furthermore, Indian IT exports may face severe headwinds due to a U.S. growth slowdown, with lower consumer spending and delayed tech investments dampening demand for IT services.

## What to Monitor:

- **Global Retaliation:** Will other countries negotiate or retaliate further?
- **U.S. Fed Response:** How will the Federal Reserve balance concerns about inflation versus growth?
- **Financial Instability:** Watch for potential stress in **emerging market currencies** and **high-yield bonds**.

# U.S.- Imposed Tariffs and Reciprocal Rates by Partner Nations

COUNTRY	TARIFF LEVIED BY THE US	COUNTRY'S TARIFF ON US IMPORTS	COUNTRY	TARIFF LEVIED BY THE US	COUNTRY'S TARIFF ON US IMPORTS
China: Total Tariff Rate To 54%	34%	67%	Sint Maarten	10%	10%
European Union	20%	39%	Falkland Islands	41%	82%
Vietnam	46%	90%	Gabon	10%	10%
Taiwan	32%	64%	Kuwait	10%	10%
Japan	24%	46%	Togo	10%	10%
India	26%	52%	Suriname	10%	10%
South Korea	25%	50%	Belize	10%	10%
Thailand	36%	72%	Papua New Guinea	10%	15%
Switzerland	31%	61%	Malawi	17%	34%
Indonesia	32%	64%	Liberia	10%	10%
Malaysia	24%	47%	British Virgin Islands	10%	10%
Cambodia	49%	97%	Afghanistan	10%	49%
United Kingdom	10%	10%	Zimbabwe	18%	35%
South Africa	30%	60%	Benin	10%	10%
Brazil	10%	10%	Barbados	10%	10%
Bangladesh	37%	74%	Monaco	10%	10%
Singapore	10%	10%	Syria	41%	81%
Israel	17%	33%	Uzbekistan	10%	10%
Philippines	17%	34%	Congo	10%	10%
Chile	10%	10%	Djibouti	10%	10%
Australia	10%	10%	French Polynesia	10%	10%
Pakistan	29%	58%	Cayman Islands	10%	10%
Turkey	10%	10%	Kosovo	10%	10%
Sri Lanka	44%	88%	Curaçao	10%	10%
Colombia	10%	10%	Vanuatu	22%	44%
Peru	10%	10%	Rwanda	10%	10%
Nicaragua	18%	36%	Sierra Leone	10%	10%
Norway	15%	30%	Mongolia	10%	10%
Costa Rica	10%	17%	San Marino	10%	10%
Jordan	20%	40%	Antigua And Barbuda	10%	10%
Dominican Republic	10%	10%	Bermuda	10%	10%
United Arab Emirates	10%	10%	Eswatini	10%	10%
New Zealand	10%	20%	Marshall Islands	10%	10%
Argentina	10%	10%	Saint Pierre	50%	99%
Ecuador	10%	12%	Saint Kitts	10%	10%
Guatemala	10%	10%	Turkmenistan	10%	10%
Honduras	10%	10%	Grenada	10%	10%
Madagascar	47%	93%	Sudan	10%	10%
Myanmar (Burma)	44%	88%	Turks And Caicos Islands	10%	10%
Tunisia	28%	55%	Aruba	10%	10%
Kazakhstan	27%	54%	Montenegro	10%	10%
Serbia	37%	74%	Saint Helena	10%	15%
Egypt	10%	10%	Kyrgyzstan	10%	10%
Saudi Arabia	10%	10%	Yemen	10%	10%
El Salvador	10%	10%	Saint Vincent	10%	10%

COUNTRY	TARIFF LEVIED BY THE US	COUNTRY'S TARIFF ON US IMPORTS	COUNTRY	TARIFF LEVIED BY THE US	COUNTRY'S TARIFF ON US IMPORTS
Côte D'Ivoire	21%	41%	Niger	10%	10%
Laos	48%	95%	Saint Lucia	10%	10%
Trinidad And Tobago	10%	12%	Equatorial Guinea	13%	25%
Morocco	10%	10%	Iran	10%	10%
Algeria	30%	59%	Libya	31%	61%
Oman	10%	10%	Samoa	10%	10%
Uruguay	10%	10%	Guinea	10%	10%
Bahamas	10%	10%	Timor-Leste	10%	10%
Lesotho	50%	99%	Montserrat	10%	10%
Ukraine	10%	10%	Chad	13%	26%
Bahrain	10%	10%	Mali	10%	10%
Qatar	10%	10%	Maldives	10%	10%
Mauritius	40%	80%	Tajikistan	10%	10%
Fiji	32%	63%	Cabo Verde	10%	10%
Iceland	10%	10%	Burundi	10%	10%
Kenya	10%	10%	Guadeloupe	10%	10%
Liechtenstein	37%	73%	Bhutan	10%	10%
Guyana	38%	76%	Martinique	10%	10%
Haiti	10%	10%	Tonga	10%	10%
Bosnia And Herzegovina	35%	70%	Mauritania	10%	10%
Nigeria	14%	27%	Dominica	10%	10%
Namibia	21%	42%	Micronesia	10%	10%
Brunei	24%	47%	Gambia	10%	10%
Bolivia	10%	20%	French Guiana	10%	10%
Panama	10%	10%	Christmas Island	10%	10%
Venezuela	15%	29%	Andorra	10%	10%
North Macedonia	33%	65%	Central African Republic	10%	10%
Ethiopia	10%	10%	Solomon Islands	10%	10%
Ghana	10%	17%	Mayotte	10%	10%
Moldova	31%	61%	Anguilla	10%	10%
Angola	32%	63%	Cocos (Keeling) Islands	10%	10%
Democratic Republic Of The Congo	11%	22%	Eritrea	10%	10%
Jamaica	10%	10%	Cook Islands	10%	10%
Mozambique	16%	31%	South Sudan	10%	10%
Paraguay	10%	10%	Comoros	10%	10%
Zambia	17%	33%	Kiribati	10%	10%
Lebanon	10%	10%	São Tomé And Príncipe	10%	10%
Tanzania	10%	10%	Palau	10%	10%
Iraq	39%	78%	Wallis And Futuna	10%	10%
Georgia	10%	10%	Saint Barthelemy	10%	10%
Senegal	10%	10%	Saint Martin	10%	10%
Azerbaijan	10%	10%	American Samoa	10%	10%
Cameroon	11%	22%	Fiji	10%	10%
Uganda	10%	20%	Tuvalu	10%	10%
Albania	10%	10%	Vanuatu	10%	10%
Armenia	10%	10%	Nepal	10%	10%

Source : Financial Express