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IMPACT OF US TRADE TARIFFS ON BRICS NATIONS

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A trade tariff is a tax or duty imposed by a government on imported or exported goods. The main purpose of the tariffs is to raise revenue for the government, protect industries from foreign competition, or retaliate against other countries' trade practices. Tariffs can influence the prices of goods, trade relations between countries, and overall economic conditions. They are often used as part of broader trade policies and negotiations.NThe incumbent US President during his presidency in 2017-2021, as part of his "America First" trade policy, had imposed tariffs on other countries which aimed to protect U.S. industries, jobs and reduce trade imbalances. The main reasons for these tariff actions included:

1. **Protecting American Jobs and Industries:** It was argued that tariffs were necessary to protect U.S. manufacturing jobs, particularly in sectors like steel, aluminum, and automotive industries, from cheaper foreign competition.
2. **Reducing Trade Deficits:** The U.S. had large trade deficits with countries like China. It was believed that imposing tariffs would encourage U.S. companies to buy more domestic products and reduce reliance on foreign imports.

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3. **Addressing Unfair Trade Practices:** Some countries, particularly China were accused of unfair trade practices such as intellectual property theft, forced technology transfers, and state subsidies for their industries. The tariffs were a way to pressure these countries to change their trade practices.

4. **Encouraging Better Trade Deals:** Tariffs were also used as a negotiating tool. US sought to renegotiate trade agreements, such as NAFTA (which was later replaced by the USMCA), and impose tariffs to bring other countries to the table for more favorable terms for the U.S.

5. **National Security Concerns:** In some cases, tariffs were justified as necessary for national security. For example, tariffs on steel and aluminum imports were framed as a way to protect the U.S. defense industry, which relies on these materials.

While the tariffs were controversial then and led to retaliatory measures from other countries, the administration argued they were essential for safeguarding U.S. economic interests. Critics, however, contended that tariffs could harm consumers by raising prices and disrupt global supply chains.

Once again, as of February 1, 2025, the US President has implemented significant tariffs on imports from Canada, Mexico, and China (though by February 4, halted tariffs on Mexico). These measures are part of his "America First" trade policy, aiming to protect U.S. industries and address issues like illegal immigration and drug trafficking.

DETAILS OF THE TARIFFS:

- **Canada and Mexico:** A 25% tariff has been imposed (later paused) on most imports from these countries. Energy resources from Canada are subject to a lower 10% tariff. These tariffs are intended to pressure Canada and Mexico to halt illegal immigration and the flow of fentanyl and other drugs into the U.S.

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- **China:** A 10% tariff has been applied to imports from China, continuing the trade tensions that began during US President's previous term. The administration aims to address unfair trade practices and protect American intellectual property.

The new measures focus on the countries contributing most to the US trade deficit. China, Mexico, and Canada are the top contributors of US trade deficit, with China at 30.2 per cent, Mexico at 19 per cent, and Canada at 14 per cent.

Trump set in motion tariffs on $1.4 trillion of imported goods. That's more than triple the $380 billion worth of foreign goods that were hit with tariffs during Trump' first term, according to estimates from the Tax Foundation.

In a report dated January 17, the Peterson Institute for International Economics warned that a 10 percent tariff imposed by the US on China, followed by a Chinese retaliation, would result in a $55 billion reduction in US GDP over four years, and a $128 billion loss for China. Inflation would increase by 20 basis points in the US, and after an initial dip, by 30 basis points in China.

POTENTIAL ECONOMIC IMPACTS

These tariffs are expected to lead to higher costs for American consumers, particularly in sectors like automotive, electronics, and agriculture. The Consumer Technology Association anticipates significant price increases for electronics, and it is estimated that the tariffs will cost typical U.S. households over $2,600 annually. Additionally, retaliatory measures from Canada, Mexico, and China could disrupt global supply chains and lead to economic downturns in these countries. For instance, economists predict potential recessions in Canada and Mexico if the 25% tariffs persist.

While these actions aim to protect domestic industries and address specific issues, they also carry the risk of escalating trade tensions and economic disruptions both domestically and internationally.

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POTENTIAL IMPACT ON INDIA

While tariffs on Mexico, Canada, and China may indirectly have a bearing on India, but India has been excluded in the first set as it contributes to only 3.2% of US trade deficit. Also, India's import tariff policy has progressed over time, effectively balancing domestic objectives with the need for global economic integration. India has ensured that tariff policies comply with WTO rules and regulations.

India's trade with the US is largest destination for merchandise exports, accounting for more than 18% in value. India exported goods worth $77.5 billion to the US in 2023-24, which was more than the cumulative value of goods exported to the next three largest destinations. That trend continues in 2024-25. Finding new markets for India exports is part of export promotion engine discussions.

On the other hand, India's imports from the US fell 17% to $42.2 billion last year. This imbalance between imports and exports has led to a rising trade deficit for the US in its bilateral trade with India, triggering tariff threats.

Petroleum crude and products constitute about a third of India's imports from the US. Pearls, precious/semi-precious stones and imitation jewellery together are the second largest items of import. Other significant purchases include equipment for power plants such as nuclear reactors and boilers, electrical machinery and equipment, aircraft and parts and medical equipment. India has also been importing military equipment from the US as it diversifies away from Russia.

Custom duty rationalization is being carried forward for past two years. It is to make sure that India is able to import without duty burden. Items that are not in India and are important for raw material purposes, India needs to get them at affordable prices.

The US wants India to lower tariffs on American goods and also buy more from it. Goods imported from the US are subject to the same duties as goods from any country with which India does not have a free trade agreement (FTA).

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India could have agreed to lower tariffs on American goods if the two countries had entered into a FTA. The Indo-Pacific Economic Framework for Prosperity (IPEF) could also have been a platform for negotiating preferential treatment for goods of signatory countries. However, tariff cuts are not included in IPEF.

Impact on the Indian Rupee and Capital Flows

The announcement of U.S. tariffs has led to increased uncertainty in Indian financial markets. The Indian rupee has depreciated against the U.S. dollar, influenced by potential capital outflows and corporate hedging activities. As of January 27, 2025, the rupee was trading at 86.3675 per dollar, a decline from 86.2050 on the previous Friday. This depreciation is partly attributed to foreign investors withdrawing approximately $7.5 billion from Indian equities during the month. As on February 3, 2025, rupee fell below 87/$.

Stock Market Volatility

Indian equity markets have experienced volatility due to the uncertainty surrounding U.S. trade policies. On January 21, 2025, India's benchmark indexes, such as the Nifty 50 and BSE Sensex, declined by 0.66% and 0.85%, respectively. This downturn was attributed to investor caution following US President's announcement of plans to impose tariffs on neighboring countries, including Mexico and Canada, with potential implications for India. Later on February 3, 2025 tariffs and counter tariffs rattled markets and India indices slipped by ~0.5%.

Potential Retaliatory Measures

In response to the U.S. tariffs, India is considering retaliatory actions. These may include increasing imports from the U.S., implementing counter-tariffs, and bolstering domestic industries to mitigate the impact of the tariffs. The Indian government is evaluating various strategies to protect its economic interests and maintain trade relations with the U.S.

Opportunities for Bilateral Trade Negotiations

Despite the challenges posed by the tariffs, there is potential for the U.S. and India to negotiate a comprehensive trade agreement.

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Both nations have expressed interest in enhancing economic ties, with discussions focusing on reducing trade barriers and expanding market access. Such an agreement could address existing trade imbalances and foster a more robust economic partnership.

India is an important market for not just the old economy American companies, banks and financial services but also tech companies such as Microsoft, Meta and Alphabet and e-commerce players such as Amazon and Walmart. Social networking companies have their largest user base in India. So US should look beyond the trade deficit and consider the overall economic relations between the two countries.

POTENTIAL IMPACT OVERVIEW ON OTHER BRICS NATIONS

1. **Brazil:** Brazil's economy relies on commodity exports, including soybeans, coffee, and iron ore. The U.S. tariffs could affect global commodity markets, impacting Brazil's exports. Additionally, Brazil may face challenges due to shifts in trade dynamics, especially if China diversifies its import sources.

2. **Russia:** Russia's economy, heavily reliant on energy exports, could be impacted by U.S. tariffs on crude oil and natural gas. Sanctions and tariffs may limit Russia's market access in the U.S. and its allies, prompting Russia to seek alternative markets and strengthen trade relations with China and the European Union.

3. **South Africa:** South Africa's trade with the U.S. includes agricultural goods and raw materials. Tariffs on these exports could affect South Africa's economy, especially in sectors like mining and agriculture. The country may need to explore new markets and strengthen regional trade partnerships.

BRICS nations may need to diversify their trade relationships, seek new markets, and strengthen internal economic policies to mitigate the impact of these tariffs. Additionally, the tariffs could strain diplomatic relations and affect global economic stability.