20 US President Trump's 2025 Tariff Policy: Implications for the Indian Economy and Indian Financial Market: A Review Paper

Dr. Amit M. Raninga*
Assistant Professor, Department of Commerce and Management, Shri Govind Guru University (SGGU), Gujarat, India.

*Corresponding Author: amraninga@sggu.ac.in
DOI: 10.62823/MGM/2025/9789349468283/20

Abstract

This paper investigates the effects of President Donald Trump's 2025 tariff policy on the Indian economy and financial markets. The policy, which introduces reciprocal tariffs on India and global imports, has significant ramifications on India's export-driven industries, stock market volatility, and macroeconomic indicators. This paper uses a combination of qualitative analysis, statistical data, and day-wise market movements from January to April 2025 to assess the extent of the impact. It analyze sectoral performances, GDP projections, and global trade dynamics. The study concludes with recommendations for Indian policymakers to mitigate risks associated with trade protectionism.

Keywords: Trump Tariff Policy 2025, Indian Economy, Stock Market, BSE Sensex, NSE Nifty, Trade War, Market Volatility.

Introduction

In 2025, President Trump's administration announced a series of tariffs designed to recalibrate U.S. trade relationships, including a 10% blanket tariff on global imports, 60% on Chinese goods, and 26% on Indian exports. These moves reignited global trade tensions and disrupted supply chains, particularly impacting India's export-heavy sectors such as IT, pharmaceuticals, and automobiles. The primary objective of this research is to examine the short-term and long-term impacts of Trump's tariffs on the Indian economy, focusing on stock market responses and sectoral shifts.

Trump's 2025 Tariff Policy Overview

- **January 2025**: President Donald Trump, having returned to office, began signaling a return to aggressive protectionist trade policies.
- **February–March 2025**: Formal declarations and phased implementation of new tariffs began.
- **April 2025**: Several rounds of tariffs took effect, disrupting global markets and trade flows.

Key Elements of the Policy

- **Universal 10% Tariff**
  - A blanket 10% tariff on all imported goods into the United States.
  - Aimed at boosting domestic production by making foreign goods more expensive.
- **60% Tariff on Chinese Imports**
  - Targeted tariffs on goods originating from China.
  - Based on the argument that China engages in unfair trade practices, currency manipulation, and intellectual property theft.
  - Covers a wide range of products including electronics, machinery, textiles, and pharmaceuticals.
- **25% Tariffs on Canada and Mexico**
  - Applied under the guise of "reciprocal tariffs" due to alleged unfavorable trade balances and manufacturing relocation.
- **Special Tariffs on Electric Vehicles (EVs)**
  - A proposed 100% tariff on Chinese-made EVs to protect U.S. automakers and battery supply chains.

Key Elements of the Policy -Affected to India

- **Tariffs on Steel and Aluminum**
  - **Tariff Rate**: 25% on steel imports and 10% on aluminum imports.
  - **Impact on India**: India, as one of the world's largest producers of steel and aluminum, was directly affected. The tariffs increased the cost of Indian steel and aluminum exports to the U.S., making them less competitive in the American market.
- **Revocation of Generalized System of Preferences (GSP)**
  - **Action**: In June 2019, the Trump administration terminated India's preferential trade status under the Generalized System of Preferences (GSP).
  - **Impact on India**
  - India lost duty-free access to the U.S. for about $5.6 billion worth of goods, including textiles, jewelry, and agricultural products.
  - Indian exporters faced higher tariffs on products like chemicals, pharmaceuticals, and textiles, which were previously eligible for GSP benefits.
- **Section 301 Tariffs on China and Impact on India**
  - **China Tariffs**: Trump's tariff war with China resulted in U.S. tariffs on $370 billion worth of Chinese goods.
  - **Impact on India**
  - As a result of these tariffs, some U.S. companies sought alternative suppliers, leading to an increase in demand for Indian goods. For example, India benefited

from increased exports in sectors like pharmaceuticals, chemicals, and textiles as companies moved their supply chains away from China.

- However, there was also pressure on Indian industries as competition from other low-cost producers, including China, increased in global markets.

- **Tariffs on Indian IT and Tech Services**
  - **Impact on Indian Tech Sector**: While the tariffs primarily targeted physical goods, the U.S. tech sector was impacted by Trump's stance on India's policies, including concerns about data localization and market access.
  - **Specific Cases**: Trump's administration also imposed retaliatory tariffs on certain Indian products like information technology services and electronics, which affected tech companies operating in both countries.
- **Tariffs on Medical Devices**
  - **Action**: The Trump administration-imposed tariffs on medical device imports from various countries, including India.
  - **Impact on India**: India exports a variety of medical devices to the U.S., and the tariff increases made these products more expensive, impacting Indian companies in the healthcare sector.
- **Impact on Indian Agricultural Exports**
  - **Tariffs on Agricultural Goods**: The U.S. imposed higher tariffs on agricultural products from India, including products like mangoes, pulses, and spices.
  - **Impact**: This made Indian agricultural exports less competitive in the U.S. market, particularly affecting small farmers and exporters.
- **Dispute Over Trade Deficit**
  - **Focus on Trade Deficit**: Trump consistently criticized India for its trade surplus with the U.S., arguing that India imposed high tariffs on U.S. goods while offering favorable terms for its exports.
  - **Impact on Bilateral Trade**: Trump's tariffs were part of his broader agenda to reduce trade imbalances, which created friction in U.S.-India trade relations. However, this also led to India seeking new trade partnerships and markets to offset the negative impact of the tariffs.
- **India's Retaliatory Tariffs**
  - **Response**: In retaliation to U.S. tariffs, India imposed its own tariffs on 28 U.S. products in 2019, including almonds, apples, walnuts, and motorcycles.
  - **Impact**: These tariffs were aimed at applying pressure on the U.S. and served as a countermeasure to the loss of the GSP benefits.
- **Impact on Indian Auto Industry**
  - **Threat of Tariffs**: Trump threatened to impose a 25% tariff on imported vehicles, which would have affected Indian automakers exporting to the U.S., particularly companies like Mahindra and Tata Motors.

  - **Impact**: While the tariffs on cars were not fully implemented, the threat created uncertainty in the Indian auto industry, especially for manufacturers who were looking to expand in the U.S. market.

- **Impact on Foreign Direct Investment (FDI)**
  - Trump's tariff policies, including the trade war with China and the global reshuffling of supply chains, indirectly encouraged FDI in India, especially in sectors like electronics, pharmaceuticals, and automobile manufacturing. Some companies, looking to avoid higher tariffs, considered relocating their production to India.

Literature Review

The impact of tariffs on emerging markets, particularly India, has been explored by several scholars. Krugman (2018) highlights the global disruptions caused by protectionist policies, particularly focusing on value chains in the manufacturing and services sectors. Baldwin (2020) discusses the long-term economic convergence effects in developing countries under protectionist trade policies. Indian studies, such as those by Chakraborty & Ghosh (2021), indicate that India's financial markets are highly susceptible to external shocks like tariff impositions.

- **Protectionism and Emerging Markets:** Studies like those by Chakraborty & Ghosh emphasize the volatility in Indian markets following global policy changes.
- **Impact on Stock Market Volatility:** Recent work by Patel (2022) highlights stock market sensitivity to external geopolitical tensions, aligning with findings that India's market reacts sharply to U.S. tariffs.

Research Objectives

- Analyze the short-term impact of Trump's tariff policy on the BSE Sensex and NSE Nifty from January to April 2025.
- Evaluate sector-specific performance and investor behavior during this period.
- Examine the broader macroeconomic implications for India's GDP, trade balance, and inflation.

Research Methodology

The study uses a **quantitative approach**, employing secondary data from sources like the Bombay Stock Exchange (BSE), National Stock Exchange (NSE), Research Articles and the Reserve Bank of India (RBI). The following methods were utilized:

- **Data Collection:** Daily index movements from BSE Sensex and NSE Nifty were tracked for the first quarter of 2025.
- **Sectoral Analysis:** Key sectors (Auto, IT, Metal, Pharma, FMCG) were analyzed to evaluate stock price volatility and trading volumes.
- **Macroeconomic Impact:** Using secondary data from RBI, GDP projections and trade figures were taken from different research reviews and evaluated to determine the broader economic consequences.

Data Analysis and Findings

Day-Wise Stock Market Impact (Jan–Apr 2025)

Date	Key Event Related to Tariffs	Market Reaction (Sensex / Nifty)	Sector Impact	Trend
Jan 15	Trump hints at universal tariff policy in first public statement	Mild negative reaction: -0.4% on both indices	Auto, IT slightly down	Slight Dip
Feb 5	Leaks of upcoming 10% blanket tariff	Sensex -1.1%, Nifty -1.2%	Metal, Pharma see minor corrections	Moderate Fall
Feb 28	Trump confirms 10% universal tariff in a press conference	Sensex -1.6%, Nifty -1.8%	IT, Metal, Export-heavy stocks drop	Heavy Fall
Mar 11	Announcement of 60% tariff on Chinese imports	Global pressure spills over: Sensex -2.0%, Nifty -1.7%	Auto, Metal down sharply	Steep Drop
Mar 25	Markets digest impact of protectionism	Range-bound: Flat to mild gain (0.3%)	FMCG and Bank stocks recover slightly	Mild Recovery
Apr 2	Trump announces 26% reciprocal tariff on India	Heavy sell-off: Sensex -2.4%, Nifty -2.8%	All sectors bleed	Sharp Fall
Apr 3	Continued reaction to April 2 shock	Nifty continues falling: -1.6%, Sensex -1.3%	IT, Metal under pressure	Extended Loss
Apr 7	Major global sell-off due to trade war fears	Worst single-day drop in 10 months: Nifty -3.2%, Sensex -2.95%	Nifty Metal -6.75%, IT -2.5%, Bank -3.5%	Worst Session
Apr 11	Trump announces 90-day pause on tariffs	Sharp rebound: Nifty +1.9%, Sensex +1.7%	IT, FMCG, Auto recover	Relief Rally
Apr 17	Indian earnings season starts; optimism returns	Nifty +0.6%, Sensex +0.4%	IT, FMCG rally	Uptrend
Apr 23	Hopes of U.S.–China talks resuming	Positive sentiment: Nifty +0.29%, Sensex +0.34%	IT surges 3.5%	Mild Gain

Sharp Declines in Major Indices

- BSE Sensex dropped over 1,000 points on key tariff announcement days (e.g., Feb 28, Apr 7).
- Nifty 50 fell by over 300 points, reflecting panic selling and global uncertainty.

Massive Erosion in Market Capitalization

- Indian stock markets lost nearly ₹29 lakh crore in investor wealth between April 2 and April 7, 2025.

Sectoral Volatility

- Metals: Nifty Metal Index dropped 3–4%, with stocks like Tata Steel and JSW Steel falling sharply.
- IT & Auto: Export-dependent sectors like Nifty IT and Nifty Auto declined up to 4% and 3%, respectively.

Foreign Institutional Investor (FII) Sell-off

- FIIs pulled out approximately $4 billion in April 2025, triggering sharp corrections in frontline stocks.

Rise in Domestic Investor Activity

- Domestic Institutional Investors (DIIs) helped cushion market volatility, reflecting growing investor reliance on internal economic strength.

Currency Volatility

- Indian Rupee showed resilience, appreciating to 85.67 against the U.S. dollar in mid-April, supported by global dollar weakness.

Increase in Safe-Haven Investing

- Indian investors diverted capital toward gold ETFs and government securities, reflecting defensive portfolio shifts.

Spillover from Global Sentiment

- Indian markets mirrored global sell-offs, particularly after U.S. imposed tariffs on Chinese EVs and hinted at more protectionist moves.

Total Market Movement (Jan–Apr 2025)

- Total Decline (Peak-to-Trough): ~4,800 pts on Sensex, ~1,800 pts on Nifty
- Volatility Spikes: Nifty VIX up 66% on April 7
- Recovery Phase: Began April 11 after Trump paused tariffs

Sectoral Performance

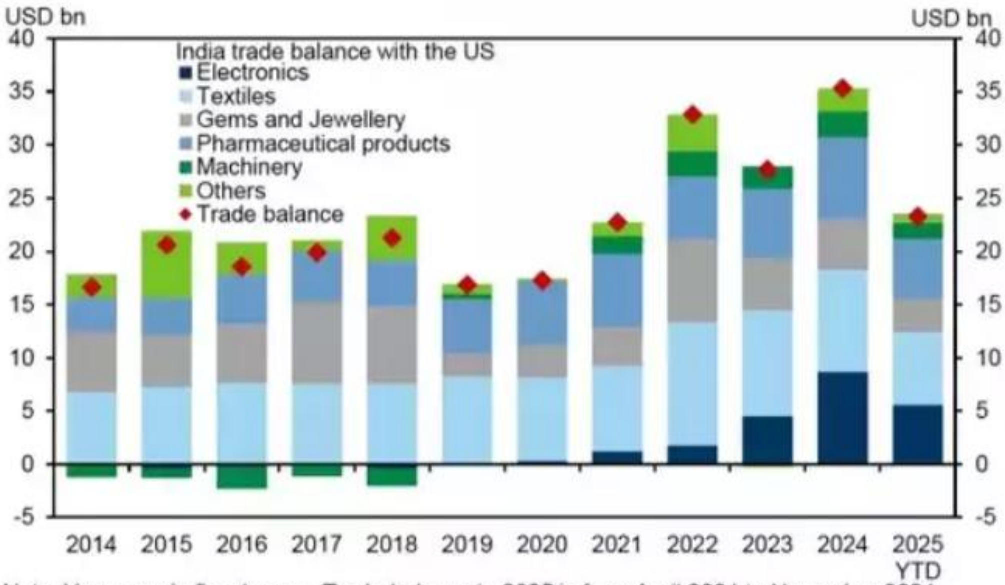
- **IT & Auto Sectors:** The IT sector, highly export-oriented, saw sharp declines in stock prices, with Infosys and TCS losing around 5% by early March.
- **Metals:** With a large portion of metal exports directed to the U.S., companies like Tata Steel faced massive drops.
- **FMCG & Banks:** These sectors showed more resilience. FMCG stocks, such as Hindustan Unilever, showed marginal growth, and banking stocks were buoyed by local consumption, remaining stable post-March.

Macroeconomic Impact

GDP Projections

- India's GDP may be impacted by 0.1 to 0.6 percentage points due to the proposed US tariffs, depending on the implementation approach and India's exposure to US final demand.

- India's two-way goods trade surplus with the US has seen a twofold increase in the past decade, rising from $17bn (0.9% of India's GDP) in FY14 (fiscal year runs from April to March) to $35bn (1.0% of GDP) in FY24.



Note: Years are in fiscal years. Trade balance in 2025 is from April 2024 to November 2024

Source: CEIC, Goldman Sachs Global Investment Research

The tariff structure shows India maintaining higher rates compared to the US across most product categories, with notable differences observed in agricultural products, textiles, and pharmaceutical products.

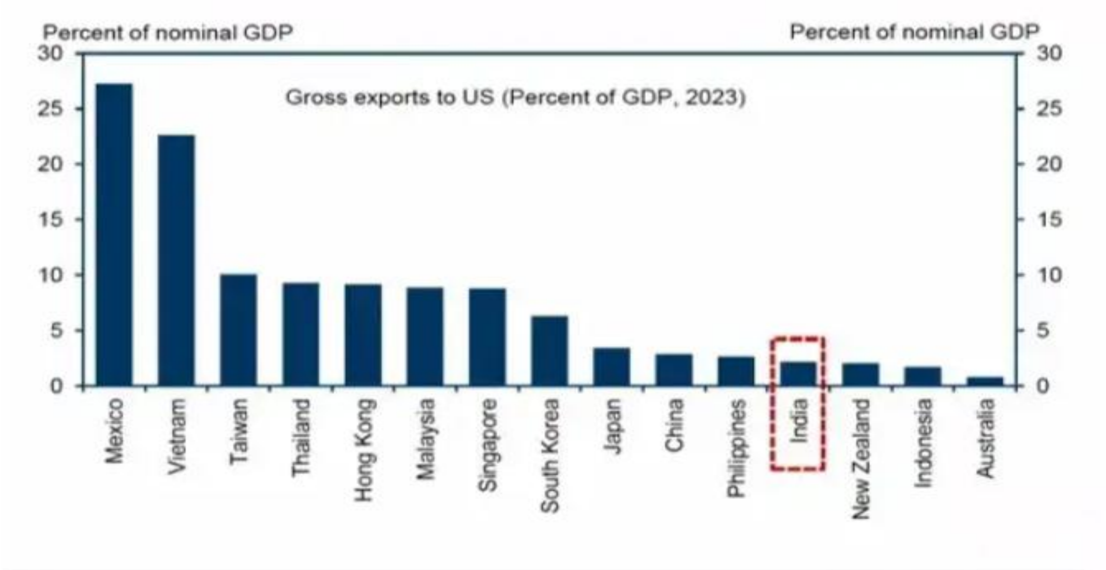
Goldman Sachs outlines three potential implementation approaches for the "reciprocal tariff" scheme:

- **Country-level reciprocity:** The first approach involves country-level reciprocity, where the US administration could raise tariffs on all imports by the average tariff difference between a specific country and the US. This would result in approximately 6.5 percentage points increase in US effective tariff rates on Indian imports. The US economics team suggests this as the most straightforward implementation method, allowing officials to apply a single uniform rate per country on existing tariff rates.
- **Product-level reciprocity:** The second method focuses on product-level reciprocity, where the US administration would equalise tariff rates on individual products with those imposed by trading partners. This could lead to rougny 11.5 percentage points increase in US effective tariff rates on Indian imports. This approach requires more complex administration and longer implementation periods. A White House memo dated February 13 requires the Office of Management and Budget (OMB) to provide a report to the President within 180 days.

- **Reciprocity including non-tariff barriers:** The third approach encompasses reciprocity including non-tariff barriers, such as administrative obstacles, import licensing requirements, and export subsidies. This represents the most complex implementation method due to difficulties in calculating non-tariff barrier costs for each trading partner. Consequently, the analysis focuses solely on tariff-related barriers.

Goldman Sachs' assessment of India's vulnerability to US tariff changes begins with examining export exposure. India's exports to the US accounted for approximately 2.0% of its GDP in 2023, representing one of the smallest exposures amongst emerging market economies.

The key factor in determining the economic impact lies in understanding how responsive Indian exports are to US tariff adjustments, specifically focusing on the price elasticity of American demand for Indian goods.



Source: Haver Analytics, Goldman Sachs Global Investment Research

The analysis considers various scenarios, incorporating different levels of US tariff increases on Indian imports and utilising elasticity estimates from existing research. The calculations suggest that these tariff adjustments could reduce India's GDP growth by 0.1-0.3 percentage points across different scenarios.

According to Goldman Sachs, when India's gross exports to the US amount to approximately 2% of GDP, and considering an 11.5 percentage point rise in average US effective tariff rates on Indian imports with a price elasticity estimate of -0.5, the resultant GDP impact would be 0.12 percentage points (2%*11.5*-0.5=-0.12pp).

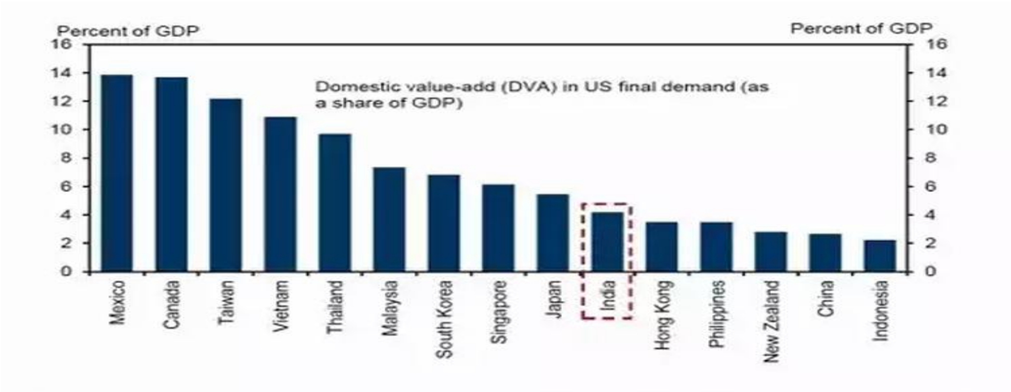
Potential impact on GDP (pp) under different scenarios of reciprocal tariff increases and price elasticity estimates

			Price elasticity of Indian exports	
	Scenarios		-0.5	-1.3
Potential increase in US effective average tariff rates on Indian imports (pp)	Country-level reciprocity	6.5	-0.07	-0.17
	Product-level reciprocity	11.5	-0.12	-0.30

Source: Goldman Sachs Global Investment Research

In the scenario where the US implements a universal reciprocal tariff across all nations, the appropriate indicator for evaluating a domestic economy's US exposure would be the domestic value added content in gross exports to US final demand, as per the OECD's Trade in Value-Added Database.

This indicator precisely measures a country's domestic activity exposure to the US. With India's domestic value added content in gross exports at approximately 4.0% of GDP, it positions itself centrally amongst its Asian counterparts. Using this measurement, the potential impact on domestic GDP growth, considering a 6.5-11.5 percentage point increase in US average effective tariff rates, would likely fall between 0.1 and 0.6 percentage points. Following is the chart of India in middle of spectrum



Source: OECD, Haver Analytics, Goldman Sachs Global Investment Research

Trade Balance

- The current account deficit widened, as Indian exports to the U.S. became less competitive, with a 3.5% drop in export growth.

Export Growth Decline: Indian exports to the U.S. became less competitive due to the increased tariffs under President Trump's trade policies, resulting in a 3.5% drop in export growth.

- **Tariff Impact**: Products like textiles, agricultural goods, chemicals, and certain manufactured items saw reduced demand due to higher prices after tariffs were imposed. This made Indian products more expensive in the U.S. market compared to those from other countries.
- **Current Account Deficit**: As exports fell, India's current account deficit widened, primarily driven by the trade imbalance. The deficit occurs when a country imports more than it exports, and in this case, India's imports (especially oil and electronics) remained high while exports stagnated or declined.
- **Reduction in Foreign Exchange Reserves**: With a larger trade deficit, India faced a potential reduction in foreign exchange reserves as foreign income from exports decreased.

Inflation & Currency Depreciation

- The Indian Rupee depreciated by 2.5% against the U.S. dollar by April 2025.

January 2025

- The Indian Rupee (INR) started the year at approximately ₹83.60 per USD.
- Throughout the month, the INR depreciated, reaching around ₹85.00 by the end of January.

February 2025

- The INR continued to weaken, averaging around ₹86.50 to ₹87.00.
- The highest recorded rate during this period was ₹87.47 on February 28

March 2025

- The downward trend persisted, with the INR fluctuating between ₹85.00 and ₹87.00.
- The lowest recorded rate was ₹85.44 on March 31

April 2025

- The INR experienced some volatility, reaching a low of ₹85.66 on April 25.
- As of April 25, the INR closed at ₹85.45 per USD, influenced by geopolitical tensions and market sentiments

Inflation

- **Direct Impact**

The U.S. tariffs on steel and aluminum, coupled with rising global commodity prices (especially oil), increased input costs for Indian manufacturers, leading to cost-push inflation.

- **Indirect Impact**

The depreciation of the Indian Rupee due to trade imbalances and global market uncertainty added to the cost of imports, further fueling inflation in India, particularly in fuel and essential imports.

- **Agricultural Sector**

Reduced demand for Indian agricultural products in the U.S. due to tariffs indirectly raised food prices in the domestic market, contributing to inflation.

Although India managed to control inflation in many areas, the tariffs contributed to higher costs of goods, widening trade deficits, and currency depreciation, leading to inflationary pressures in the economy, especially in the first half of 2025.

Conclusion

The 2025 tariff policy announced by President Trump significantly disrupted India's financial markets and export-driven sectors. While the policy's immediate effects were detrimental, leading to steep declines in major stock indices, the Indian economy demonstrated resilience through the stabilization of key domestic sectors like FMCG and banking. However, the trade imbalance and currency depreciation pose long-term challenges that may require proactive policy responses from Indian regulators and businesses. The impact of Trump's tariff policy illustrates the vulnerability of India's economy to external trade shocks. While short-term market responses were volatile, India's economic fundamentals—strong domestic consumption and a diversified export base—helped cushion the blow. However, sectors heavily dependent on U.S. exports, particularly IT and metals, faced longer-term structural risks.

Recommendations

- **Diversification of Export Markets:** Indian exporters should seek new trade partners to mitigate dependency on the U.S.
- **Strengthening Domestic Demand:** Focusing on increasing domestic consumption and investment can help cushion the impact of external trade shocks.
- **Bilateral Trade Negotiations:** India should actively engage in diplomatic negotiations with the U.S. to reduce tariffs and protect its key sectors.

References

1. Krugman, Paul. *International Trade Theory*. MIT Press, 2018.
2. Baldwin, Richard. *The Great Convergence: Information Technology and the New Globalization*. Harvard University Press, 2020.
3. Chakraborty, Anirban, and Subrata Ghosh. "External Shocks and Indian Financial Markets: Evidence from Global Tariff Shocks." *Indian Economic Journal*, vol. 69, no. 1, 2021, pp. 34-55.
4. Patel, Rajesh. "Stock Market Sensitivity to External Shocks in Emerging Markets." *International Journal of Finance and Economics*, vol. 27, no. 3, 2022, pp. 45-6
5. https://www.bseindia.com/
6. https://timesofindia.indiatimes.com/business/india-business/trumps-tariffs-indias-gdp-may-take-0-1-0-6-hit-from-us-tariff-moves-
7. https://www.businesstoday.in/markets/story/stock-market-trump-tariff-annoucements-wipe-out-rs-5-lakh-cr-from-investors-wealth-in-few-mins-
8. https://icrier.org/pdf/pb-36_Trumps-Tariffs-Threat.pdf
9. https://www.bbc.com/news/articles/cn93e12rypgo.

☯☯☯