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Premium

What Trumponomics means for India, the world

Economic outlook presented by Donald Trump could, if put into practice, trigger higher inflation in US — provoking action by the Federal Reserve that would impact economies across the world, including India. Here's what to look for in the spheres of business and economy

Written by [Aanchal Magazine](#) , [Anil Sasi](#)

New Delhi | Updated: November 7, 2024 07:34 IST



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In September 2019, Indian Prime Minister Narendra Modi invited US President Donald Trump to the 'Howdy Modi' rally in Houston, drawing a crowd of 50,000 people. Modi referred to India's "true friend" in the White House and seemed to show support for Trump's re-election with the slogan "Abki baar, Trump sarkar." (Express Archives)

The radical economic outlook presented by Donald Trump includes plans to impose a 20% tariff on all imports and more than 200% duty on cars; a proposal to deport millions of irregular immigrants; and to extend tax cuts at a time when the US budget deficit is at record high. Should he walk the talk after taking charge early next year, these proposals could present some macroeconomic challenges.

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The coming presidency is seen as a positive for American stocks and the Dollar, even as it raises some concerns for treasuries given the risk of fiscal profligacy. Trump 2.0 could also potentially throw up challenges for India's growth imperative amid possible disruptions in global supply chains, trade wars and tariff barriers, heightened forex volatility, and headwinds to global fund flows.

A possible dilution of the Federal Reserve's rate-cut agenda in the light of a changed macroeconomic situation in the US would also impact the trajectory of India's monetary policy — given that the RBI may first try to resolve the uncertainties before undertaking any significant rate-cut action.

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Bitcoin surged to a record high of more than \$75,000 on Tuesday, as crypto investors celebrated the return of Trump, who has earlier pledged to make it “the bitcoin superpower of the world”.



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Inflation impact, Fed stance

Higher tariffs and a trade war would most certainly lead to higher [inflation](#) in the US. This, combined with runaway deficits and a possible dilution of institutional autonomy could lead to foreigners beginning to rethink if they should lend unlimited money to the US Treasury — which has been a given thus far.

Such a shift could mark a possible watershed moment — of the scale, perhaps, of the decision in early 2022 to freeze Russian foreign assets, which forced central banks around the world, including RBI, to buy physical gold rather than derivatives or exchange-traded funds that track the yellow metal's price.

The [Fed's](#) decision to continue its rate-cut cycle depended strongly on the result of the presidential election — and experts believe that the full scale of the cycle may now be at risk. While Trump's promised tax cuts and tariff barriers could end up stimulating the American economy, at least in the short term, analysts predict they could eventually stoke inflation — and likely force the Fed to end its rate-cutting cycle sooner.

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That could have implications for the monetary easing plans of other countries, including India. Such policies may pause the interest rate cycle globally, ICICI Securities said Wednesday, adding that it could “set in motion higher tariffs and tax cuts, usher in fiscal deficit pressure and become a vehicle for inflationary tendencies”.

As a domino effect, the US dollar could weaken — like in Trump 1.0, “when the dollar index fell and fiscal deficit rose”, the brokerage said in a report.

Rates and the forex market could be a casualty. “The spillover of bond and FX volatility via the global financial markets route would mean the aim of financial stability may precede inflation management and... central banks, including the RBI, would want to see these uncertainties resolved before acting. This makes the December rate cut call tricky and possibly a shallower rate-cut cycle, following the Fed,” an analyst at Emkay Global said.

Green card, demand outlook

While Trump’s promise to curb both legal and illegal immigration could be inflationary in a full-employment situation, as the US has experienced in the past months, the President elect also proposed recently to “automatically” giving green cards to foreign nationals who graduate from an American college.

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“...What I will do, is you graduate from a college, I think you should get automatically...a green card to be able to stay in this country,” he had said on a podcast that aired on June 21. This could be a positive for Indian students in

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Domestic investment demand-related themes and financials could benefit from a weak US dollar on account of lower import costs and elevated interest rates respectively. In the near-term, however, the proposed reduction in the corporate tax rate (21% to 15%) could free up the budget for US-based end clients of India service providers, driving better demand. This is a possible reason why IT stocks rallied in Wednesday's trade in India.

Elon Musk's likely rise

The possible induction of Elon Musk into the new administration could have repercussions for India. A proposal rushed through by New Delhi to accommodate Musk's demand to import Tesla cars at a lower duty earlier this year was not quite accepted by the President elect's billionaire supporter. There could be pressure now to sweeten the deal further.

The lobbying for Musk in other areas such as satellite spectrum allocation or space launches could also get more vocal across key global markets, including India.

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Fed meet, China stimulus

There are two external events to watch out for now. The first is the Fed's monetary policy meeting on November 6-7, where the Federal Open Market Committee — the

bank's key rate-setting panel — is expected to share its renewed outlook on inflation.

The second is the ongoing meeting of the Standing Committee of the National People's Congress, the executive body of China's top legislature, which convened in Beijing for a five-day meeting on Monday. The committee is expected to sign off on a second economic stimulus package in a little over a month — which could direct more funds towards buying idle land and property, recapitalising banks, refinancing local government debt, and offering assistance to households.

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The high tariffs on Chinese goods promised by Trump could shave more than 2 percentage points off China's growth during the next year, according to analysts. Beijing could, therefore, push a bigger stimulus package. Nomura anticipates the eventual scale of China's fiscal stimulus package to reach 2-3% of GDP annually over the next several years. This could make other markets, including India, less appealing to FPIs and other key investors.

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