



# IMPACT OF THE UNITED STATES PRESIDENTIAL ELECTIONS ON INDIA

BWR Economic Brief

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BRICKWORK RESEARCH

## IMPACT OF THE UNITED STATES PRESIDENTIAL ELECTIONS ON INDIA

Donald Trump has won the 2024 U.S. presidential election, marking a historic political comeback after his defeat in 2020. President Trump's win solidifies his influence within the Republican Party as he prepares for another term in office beginning January 20, 2025. Donald Trump's return to the presidency has significant implications for India across various sectors, based on his previous term and current policy positions.

While Donald Trump's presidency presents several challenges for India, it also offers opportunities:

### Challenges:

1. Potential increase in tariffs on Indian goods
2. Stricter immigration policies affecting Indian professionals
3. Possible trade disputes and negotiations

### Opportunities:

1. Increased defence cooperation
2. Potential benefits from the "China Plus One" strategy
3. Possible increase in US investments in Indian manufacturing

Donald Trump's second term as U.S. President presents a mixed bag of expectations for India's economy and various sectors. While some industries like defence and manufacturing may benefit from strengthened ties and strategic realignments, others like IT and pharmaceuticals could face hurdles due to potential trade barriers and visa restrictions.

As global geopolitical and economic landscapes evolve, India's ability to adapt to changing U.S. policies while pursuing its own development goals will be crucial in shaping the future of this important bilateral relationship.

Indian policymakers and businesses will need to navigate these complex dynamics carefully, leveraging opportunities while mitigating risks to maintain and enhance the country's economic growth and strategic position in the global arena.

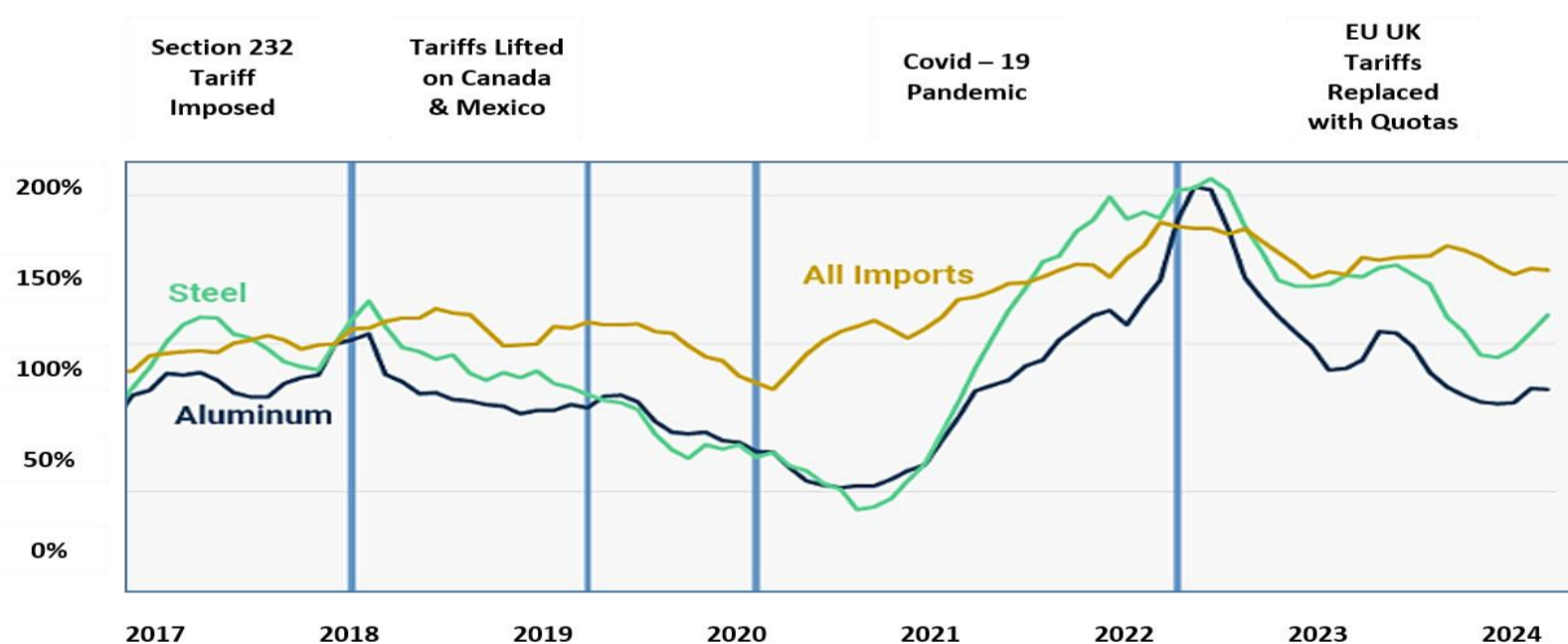
### Trade Relations

During President Trump's first term, trade relations between the U.S. and India experienced both challenges and opportunities. His "America First" policy and focus on reducing trade deficits led to several actions that affected India:

### Tariffs and Trade Status

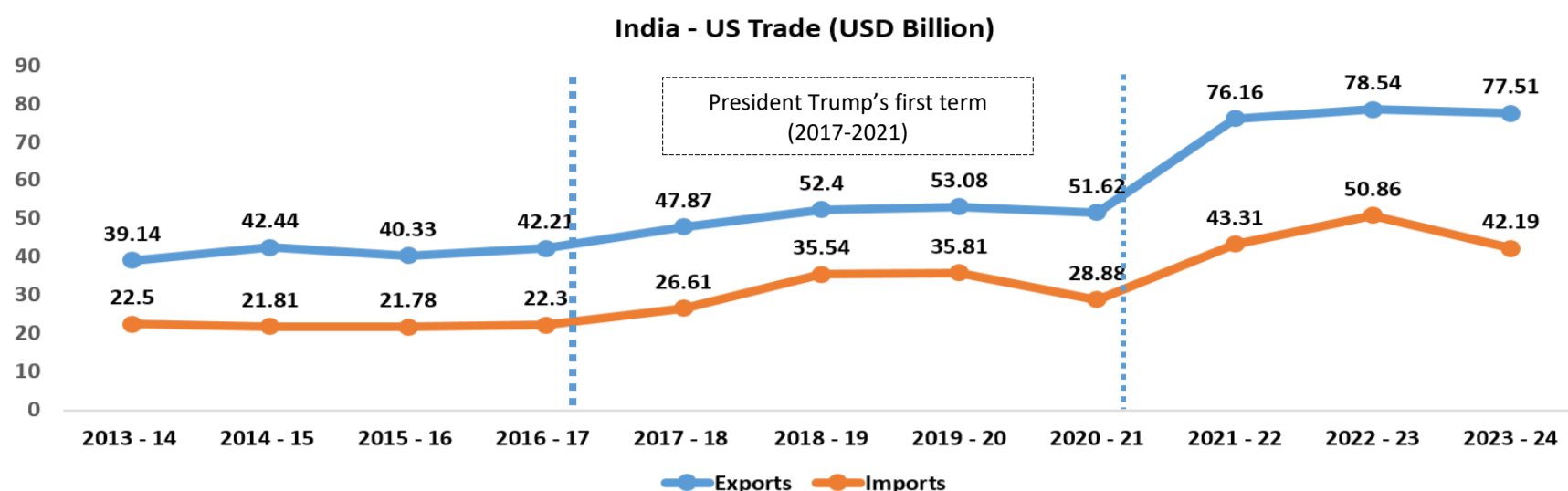
In 2018, the Trump administration imposed tariffs on steel and aluminium imports from various countries, including India. This move prompted retaliatory tariffs from India on several U.S. products. Additionally, in 2019, President Trump revoked India's preferential trade status under the Generalized System of Preferences (GSP), impacting approximately 12% of India's exports to the U.S.

### Imports of Steel and Aluminum in the US Fell on Imposition of Tariffs



Source: U.S. Trade Commission, BWR

Despite these challenges, bilateral trade between the two countries continued to grow. By August 2024, India's total exports to the U.S. reached \$54.7 billion, with imports totalling around \$28.5 billion, resulting in a trade surplus for India.



### Potential Impact in President Donald Trump's Second Term

1. Increased Scrutiny of Trade Surplus: Given Donald Trump's focus on trade deficits, India's trade surplus with the U.S. could become a point of contention, potentially leading to new tariffs or trade negotiations.
2. Sector-Specific Impacts:
  - Pharmaceuticals: Indian pharmaceutical exports might face increased scrutiny and potential tariff revisions.
  - Information Technology: The IT sector could be affected if trade conflicts reduce discretionary spending in the U.S.
  - Manufacturing: "China Plus One" strategy could benefit India as U.S. businesses look to diversify their supply chains away from China.
3. Opportunity for Negotiations: Despite potential challenges, both nations have shown willingness to negotiate trade agreements, suggesting possibilities for future collaboration.

### Defence and Strategic Cooperation

The US-India defence partnership strengthened significantly during President Trump's first term, a trend likely to continue in his second presidency:

#### Key Developments

1. Defence Agreements: The signing of agreements like the Communications Compatibility and Security Agreement (COMCASA) enhanced military collaboration between the two countries.
2. Arms Sales: President Trump's administration facilitated increased arms sales to India. This trend is expected to accelerate in his second term, potentially including advanced military equipment such as drones, missile systems, and naval technologies.
3. Indo-Pacific Strategy: President Trump's emphasis on countering China's influence aligns with India's strategic interests in the Indo-Pacific region, potentially leading to expanded cooperation in this area.

#### Potential Impacts

- Defence Industry: Indian defence companies like Bharat Dynamics and Hindustan Aeronautics Limited (HAL) could benefit from increased collaboration and technology transfers.
- Military Modernization: Accelerated arms deals could support India's efforts to modernize its defence forces, particularly in light of security concerns along its northern borders.
- Strategic Alignment: Strengthened military ties are likely to increase interoperability between U.S. and Indian forces, crucial for operations within the Quadrilateral Security Dialogue (Quad) framework.

### Immigration Policies

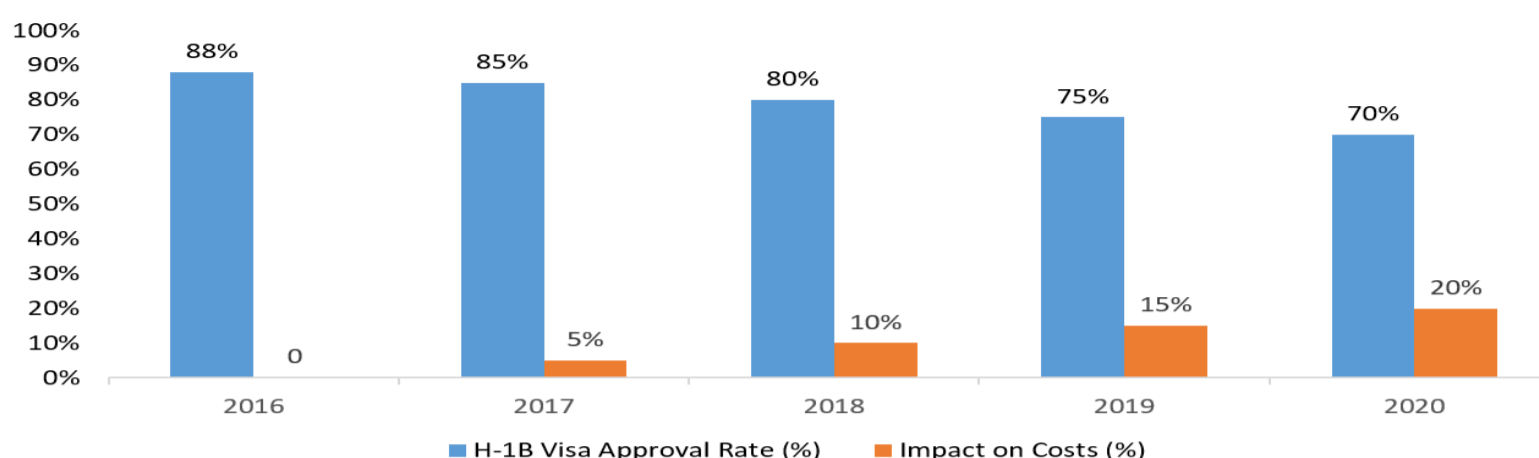
President Donald Trump's immigration policies during his first term had significant implications for Indian professionals and students in the U.S. Similar approaches in his second term could have far-reaching effects:

#### H-1B Visa Program

During his first term, President Trump implemented several changes to the H-1B visa program, which is heavily utilized by Indian IT professionals:

1. Increased Scrutiny: The administration raised wage requirements and added restrictions for foreign workers, making it more challenging for Indian professionals to obtain H-1B visas.
2. Visa Suspensions: In 2020, Donald Trump temporarily suspended H-1B visas in response to the COVID-19 pandemic, affecting many Indian tech workers.

### Impact of H-1B Visa approval rate on costs of IT Sector in India



Source: BWR Estimates

### Potential Impacts in Second Term

- IT Sector: Continued restrictions on H-1B visas could disrupt Indian IT companies' operations in the U.S. and affect their ability to send workers for on-site projects.
- Brain Drain Concerns: Stricter immigration policies might discourage Indian talent from seeking opportunities in the U.S., potentially leading to a "reverse brain drain".
- Adaptation Strategies: Indian IT companies have already begun adapting to these challenges by increasing local U.S. hiring and employing more green card holders, which could mitigate some impacts of future restrictions.

### Economic and Market Impacts

President Trump's economic policies and their global repercussions could significantly affect Indian markets and various economic sectors:

#### Market Reactions

- Short-term Rally: Indian stock markets demonstrated a positive initial reaction to Trump's victory, with both the NSE Nifty 50 and BSE Sensex indices experiencing gains of one percent.
- Long-term Uncertainty: While there might be short-term market gains, sustained growth would depend on India's earnings momentum and valuations, both of which currently remain weak.

#### Fiscal and Monetary Policy Impacts

1. Inflation and Interest Rates: Donald Trump's fiscal expansion policies could drive inflation, potentially leading to higher interest rates. This could affect commodity-linked sectors in India and impact foreign portfolio investment (FPI) inflows.
2. Currency Effects: A stronger U.S. dollar, resulting from President Trump's economic policies, could weaken the Indian rupee, increasing import costs, particularly for oil.

#### Estimated Impact of Inflation on Interest Rate Trajectory

YEAR	FEDERAL RESERVE INTEREST RATE (%)	INFLATION RATE (%)
2024	4.25%	3.50%
2025	4.75%	4.00%
2026	5.25%	5.00%
2027	5.75%	6.00%

Source: MorningStar Insights

#### Sector Specific Impacts

1. Information Technology (IT):
  - During President Trump's previous term, Indian IT companies grew at a CAGR of 13% from 2016-2020.
  - However, stricter H-1B visa rules could raise costs for Indian IT firms.
  - The American market contributes over 80% of India's IT export earnings, making visa policy changes a serious concern.
2. Manufacturing:
  - Trump's efforts to reduce US dependence on China could create opportunities for Indian manufacturers as part of the "China Plus One" strategy.
  - Sectors like electronic manufacturing services (EMS), chemicals, and pharmaceuticals could benefit.
3. Defence:
  - The US-India defence partnership is likely to strengthen, potentially benefiting Indian defence companies like Bharat Dynamics and HAL.
4. Pharmaceuticals:
  - The sector could benefit from President Trump's expected policy shift and the US pursuit of affordable healthcare solutions.
  - However, it might also face challenges due to potential tariff increases.

5. Energy:
  - Donald Trump's fossil fuel-friendly policies might benefit Indian refiners and consumers through potentially lower global oil prices.
6. Banking and Financial Services:
  - These sectors may benefit from potential deregulation policies under Trump.
7. Auto Components:
  - Demand for Indian auto parts in US markets is expected to rise, but the sector might also face higher tariffs.

### **Climate and Environment**

President Trump's climate policies could have significant implications for India's environmental initiatives and access to climate finance:

1. Climate Finance: With the U.S. potentially withdrawing support for global climate funds, India might face funding gaps in its green transition efforts.
2. Renewable Energy: Trump's focus on traditional energy sectors through deregulation could benefit oil, gas, and coal industries, potentially slowing global momentum for renewable energy initiatives.
3. Technology Transfer: A potential pullback from global environmental coalitions might delay collaborative projects and technology transfers, affecting India's progress towards its renewable energy targets.

### **Geopolitical Dynamics**

President Donald Trump's approach to international alliances and his stance on key global players could influence India's foreign policy:

1. China Policy: Trump's confrontational approach towards China aligns with India's strategic interests, potentially strengthening the U.S.-India partnership as a counterweight to Chinese influence.
2. South Asia Strategy: President Trump's critical stance on Pakistan regarding terrorism could align with India's security concerns in the region.
3. Russia Relations: India's strategic autonomy, particularly its relationship with Russia, could be an area of focus in U.S.-India relations under Donald Trump's presidency.

### **Foreign Investment and Capital Flows**

Donald Trump's presidency could have mixed effects on foreign investment in India:

1. Foreign Portfolio Investment (FPI):
  - Initially, Trump's presidency may boost investor sentiment, leading to a short-term uptick in Indian markets.
  - However, in the long term, Trump's policies favouring a stronger dollar and higher interest rates may divert investments back to the US, potentially aggravating FPI outflows from India.
2. Foreign Direct Investment (FDI):
  - The "China Plus One" strategy could lead to increased FDI in India as US companies look to diversify their supply chains.

\* Views are personal

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