

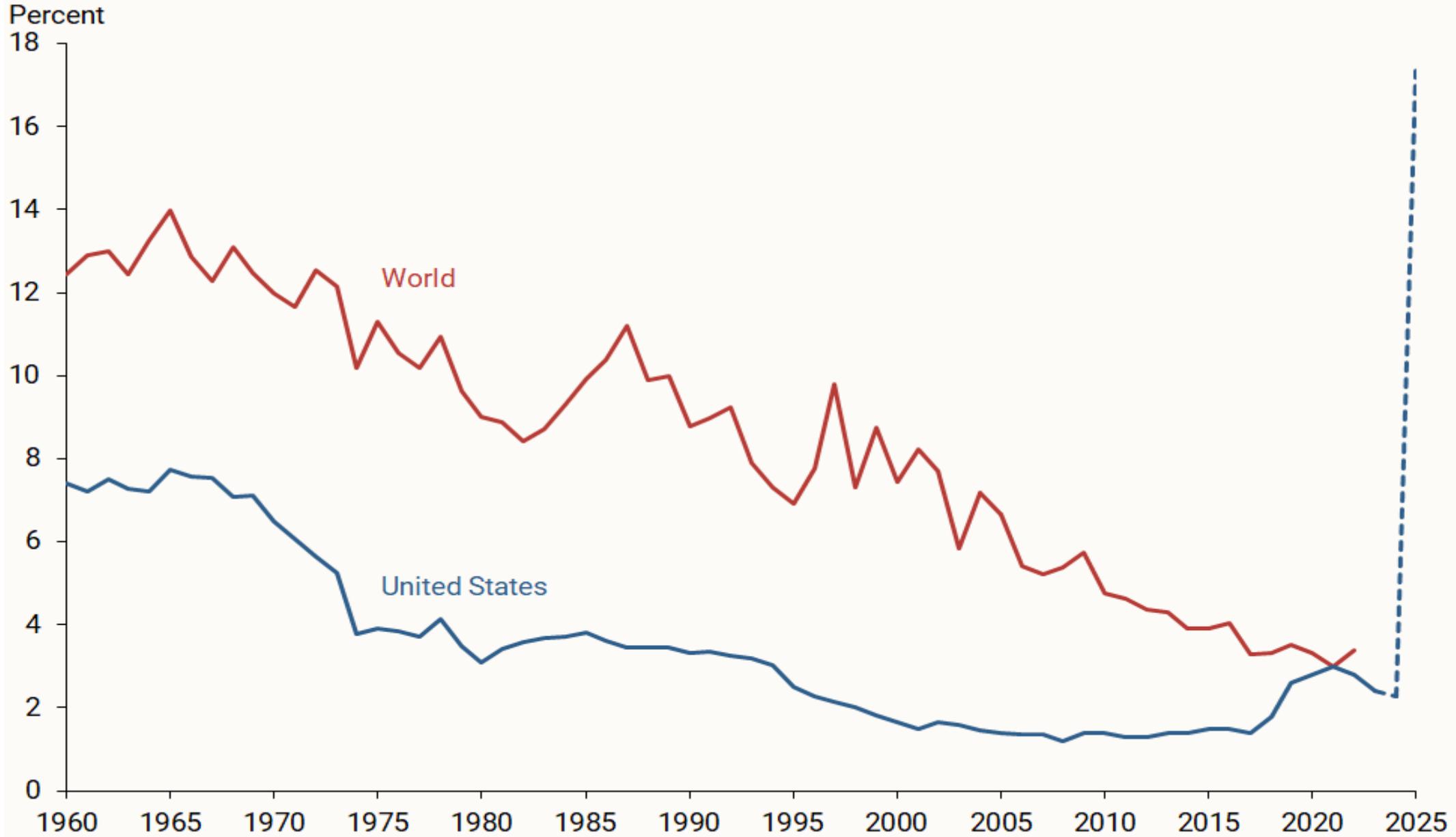
# Tariff Wars : Unpacking Economic Consequences



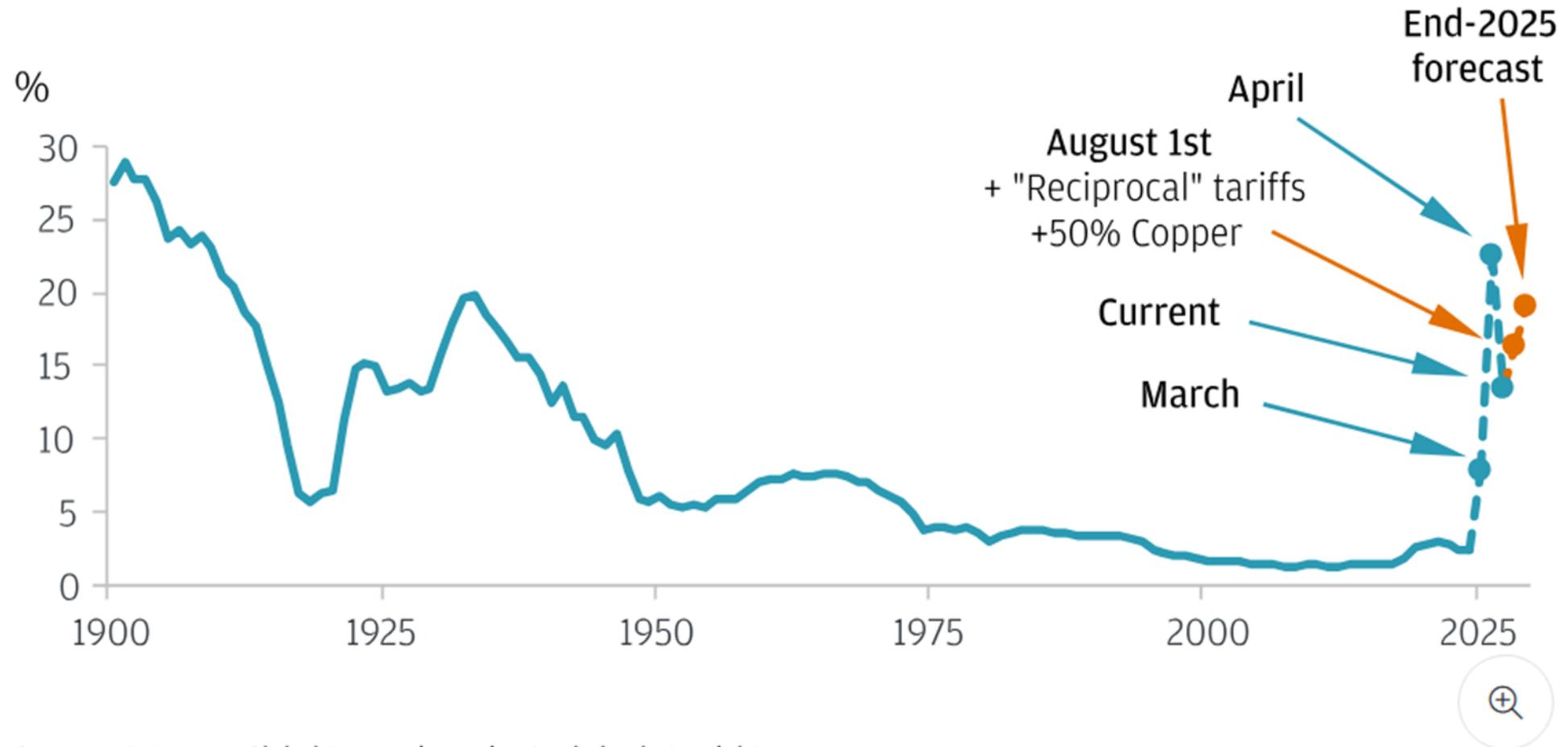
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*The United States announced new, higher tariff rates this year. Tariffs can affect supply chains, investment, and firms' input costs, resulting in supply-side effects such as higher inflation and higher unemployment. However, tariffs can also affect spending, the demand side of the economy. Weaker demand translates to higher unemployment but lower inflation.*

*Estimates using 40 years of international data show that, following a change in tariffs, initially the unemployment rate increases and inflation declines. Over time, however, the unemployment rate returns to normal levels while inflation increases.*

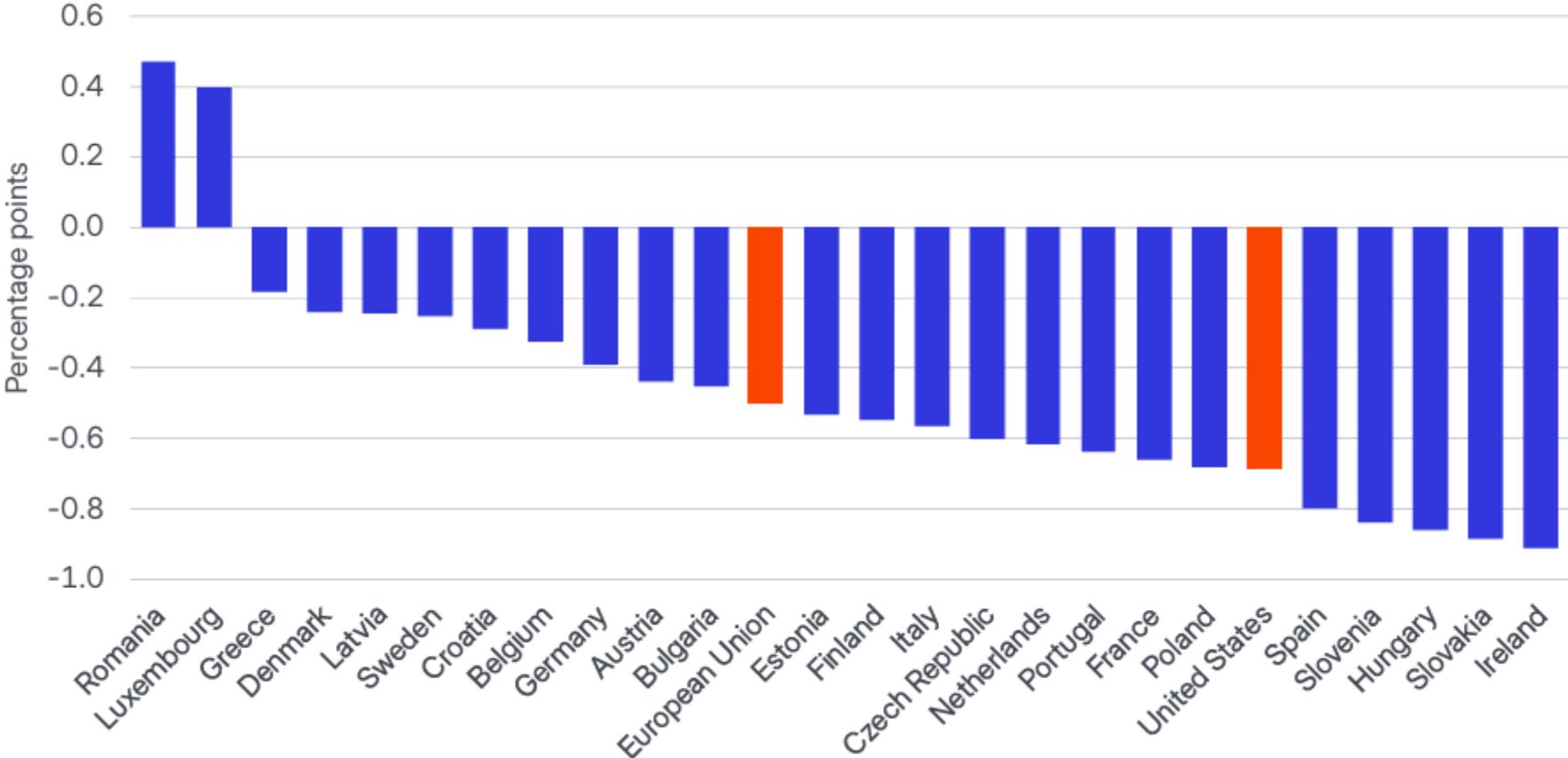


# US average tariff rate



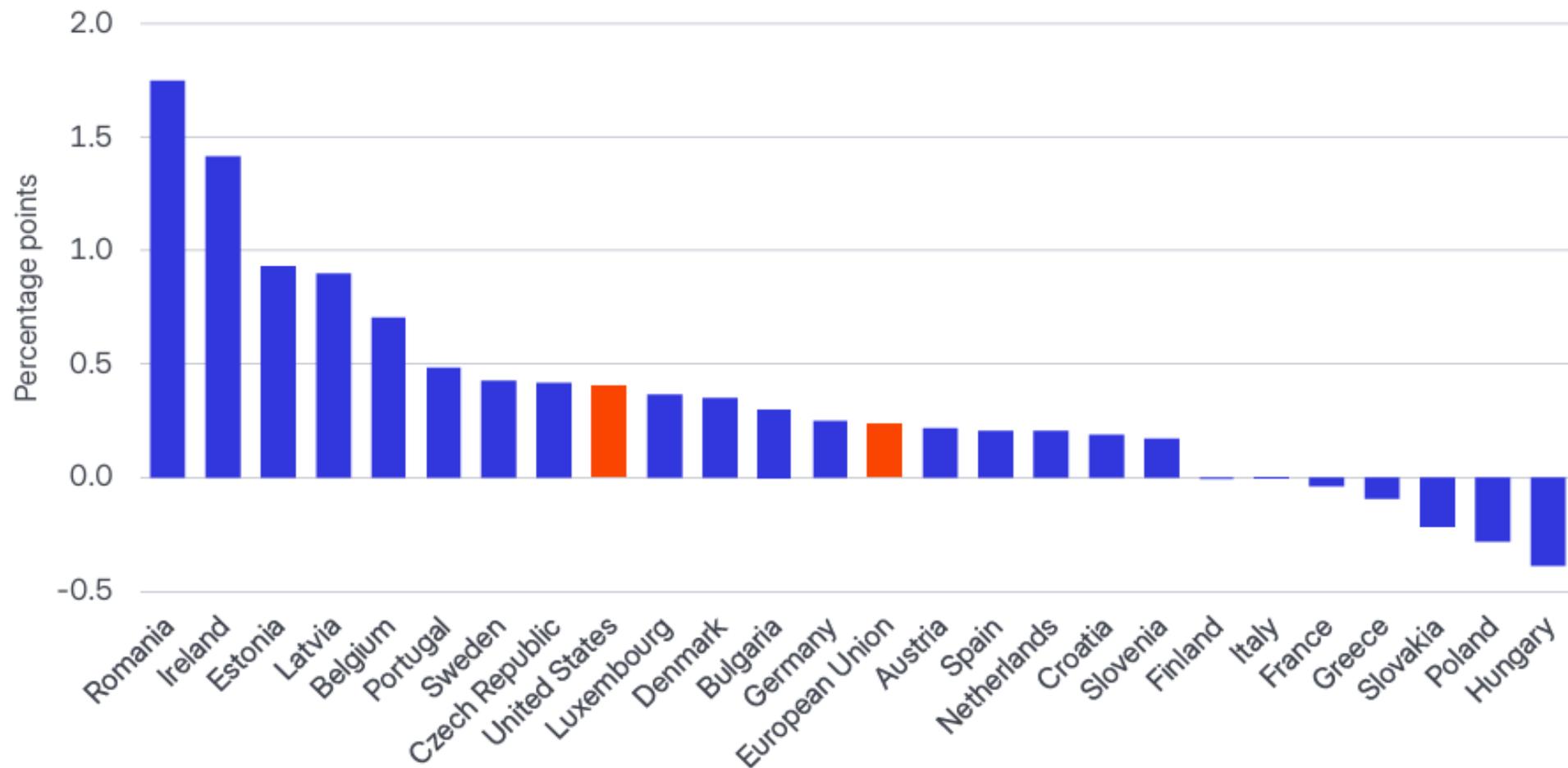
Source: J.P. Morgan Global Economics, using trade basket weights.

### Expected Effects of a 10% EU Import Tariff on All Goods on Growth in 2025



Source: Economic Experts Survey 2025Q2

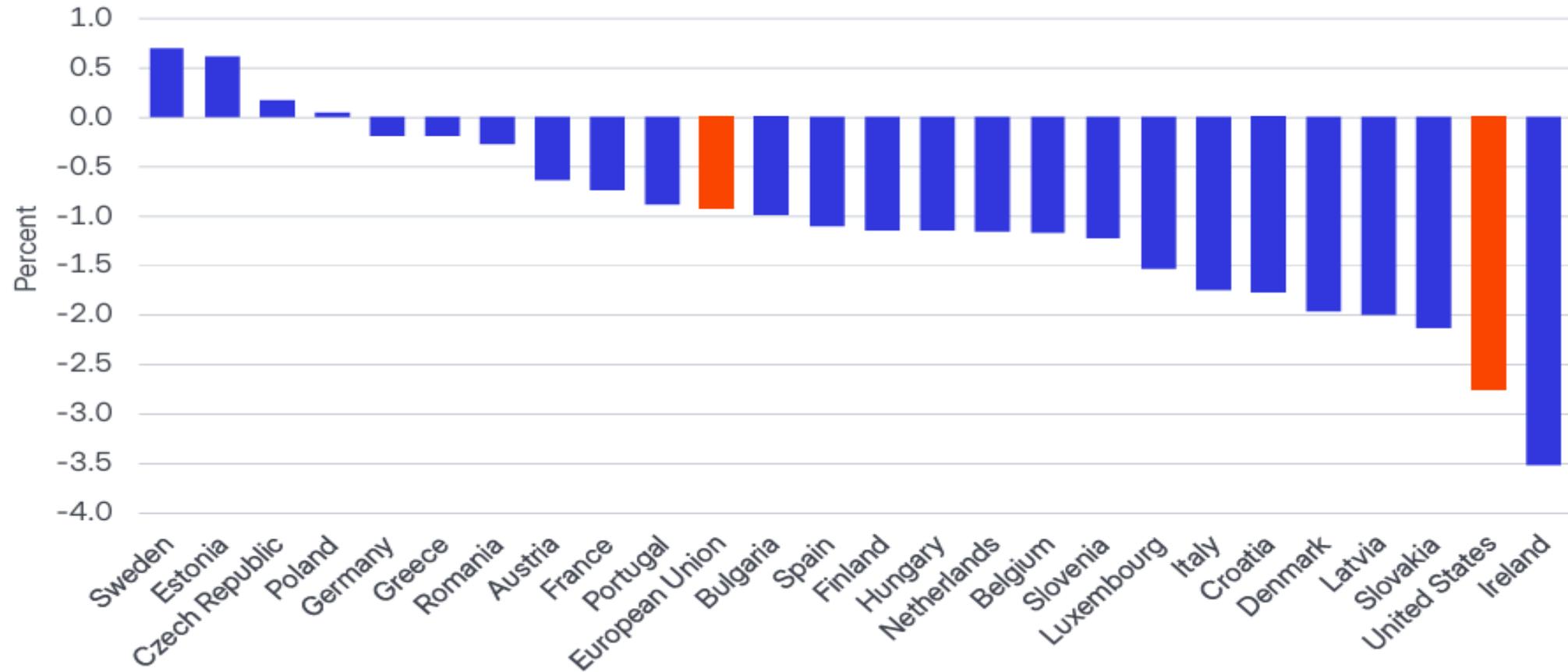
## Expected Effects of a 10% EU Import Tariff on All Goods on Unemployment in 2025



Source: Economic Experts Survey 2025Q2

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## Expected Effects of a 10% EU Import Tariff on All Goods on FDI in 2025



Source: Economic Experts Survey 2025Q2

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The current global economic landscape in early 2026 is profoundly shaped by the "Tariff War" cycle that escalated in 2025. Based on recent empirical data and reports from the IMF, OECD, and Federal Reserve, the consequences have moved beyond theoretical friction into measurable macroeconomic shifts.

Below is a detailed research synthesis of the economic consequences.

## **1. Macroeconomic Growth & Global GDP**

The shift from a low-tariff environment (approx. 2% in early 2025) to a high-protectionist regime (peaking over 20% for some corridors) has led to a coordinated downgrade in growth.



•**Global Growth Contraction:** The IMF and OECD have revised 2025/2026 global growth downward to **3.1%–3.2%**.

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A "worst-case" scenario of sustained retaliation suggests a potential cumulative loss of **1.2% to 1.8%** of global GDP by 2027.

•**Regional Variance:** \* **United States:** Faced an estimated real GDP loss of **0.6% to 0.8%**. While initially resilient due to "front-loading" (businesses buying stock before tariffs took effect), the drag on investment became visible by late 2025.

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**China:** Despite a 29% drop in exports to the US, China maintained a **5% growth rate** in 2025 by successfully diversifying trade toward the Global South and emerging markets.

**Mexico & Canada:** Highly exposed due to USMCA integration; Mexico faced a deep recession in 2025 with output shrinking by **1.3%**.

## Consumer Prices and "Pass-Through" Inflation

A critical finding of 2025–2026 research is that tariffs function as a consumption tax, with the burden falling almost entirely on domestic importers and consumers.

- **PCE Impact:** The Federal Reserve detected that February/March 2025 tariffs led to an immediate **0.3% increase** in core goods prices

**Household Costs:** Estimates suggest the average US household faced an additional tax burden of **\$600 to \$1,000** in 2025 due to tariff-induced price hikes.

**Sectoral Inflation:** Electronics and apparel saw the sharpest increases. A 10% tariff on apparel typically translates to a **3%–5%** rise in retail prices.

## Consequence

## Description

## Impacted Sector

### Trade Diversion

US imports from China fell, but imports from Vietnam, India, and Thailand rose to bridge the gap.

Consumer Tech, Textiles

### Nearshoring

Shift of production to Mexico to avoid trans-Pacific tariffs and reduce logistics lead times.

Automotive, Machinery

### Cost Cascade

60% of companies reported logistics cost increases of **10%–15%** due to reconfiguring networks.

Manufacturing, Retail

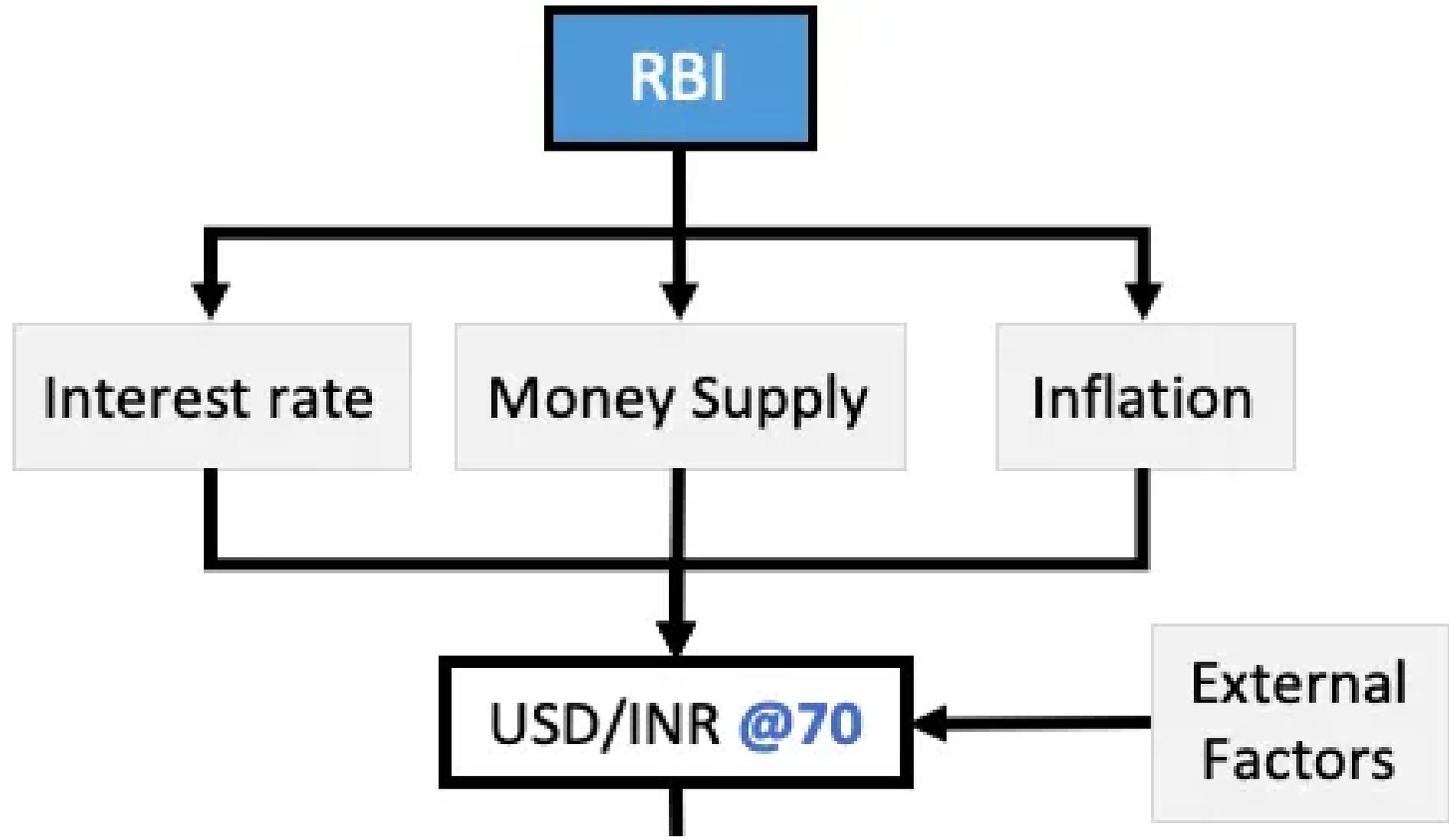
## 4. Retaliatory Dynamics & Game Theory

The current research highlights a "Tit-for-Tat" or **Prisoner's Dilemma** trap where individual countries act to protect domestic industry but leave the global collective worse off.

**Agricultural Retaliation:** China and other partners targeted US soybeans and meat. This caused a loss of over **\$14.4 billion** in US agricultural exports as buyers shifted to Brazil.

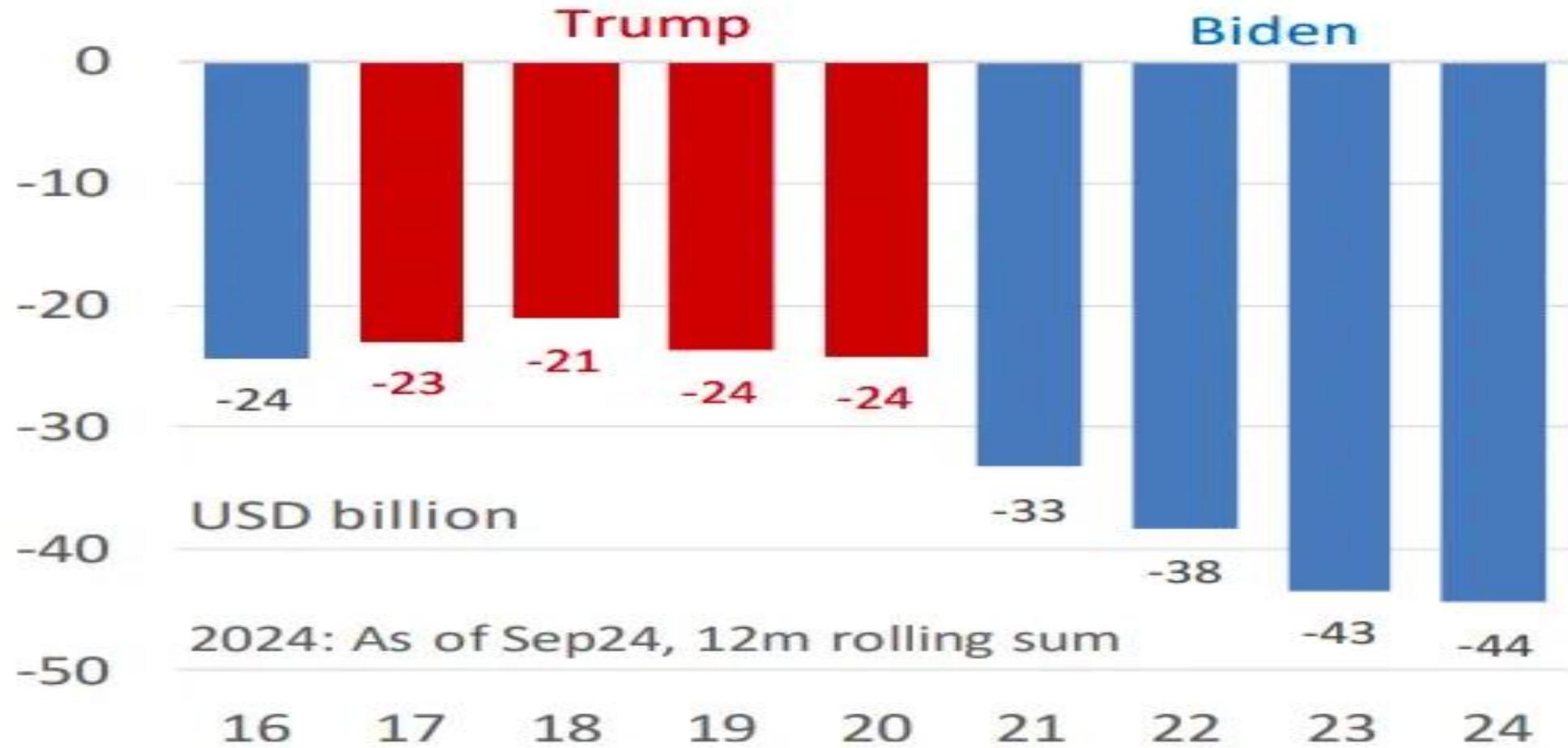
**Strategic Leverage:** China's control of **95% of processed rare earth elements** remains a "Big Stick" in 2026 negotiations, exposing vulnerabilities in high-tech and defense supply chains that cannot be quickly reshored.







## US trade deficit with India widened during Biden's term



Sources: DBS Research, Bloomberg data

# What is Internationalization of Rupee?

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**Internationalization of Rupee** refers to a process that involves **increasing the use of the rupee in cross-border transactions.**

It involves **promoting the rupee for import and export trade** and then other **current account transactions**, followed by its use in **capital account transactions.**

# Normal International Transaction



**Indian Buyer**  
(Payment in INR ₹ 3000)



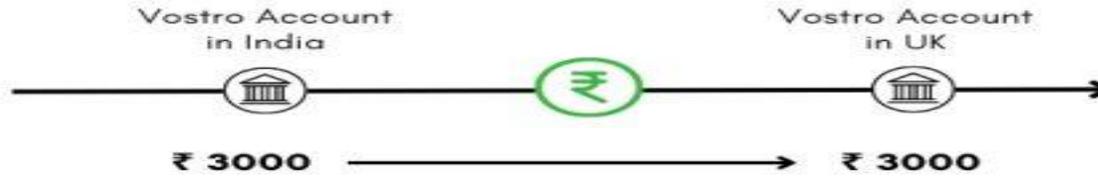
**UK Seller**  
(Received in Pound 29.51 £)

Risk of Conversion rate fluctuations on both sides.

## Indian Rupee Trade System



**Indian Buyer**  
(Payment in INR ₹ 3000)



**UK Seller**  
(Received in INR ₹ 3000)



**Indian Seller**  
(Received in INR ₹ 3000)



**As UK Buyer**



**Indian Market**



**As UK Investor**



## RBI's Nod for 18 Countries to Trade in Indian Rupee



18 countries banks are now eligible to open Special Vostro Accounts (SVRAs) to settle payment in Indian Rupee.

 Tanzania	 Kenya	 Israel	 Guyana	 Oman	 Russia
 Uganda	 Botswana	 Malaysia	 Mauritius	 Fiji	 Singapore
 Seychelles	 Germany	 Myanmar	 UK	 Sri Lanka	 N. Zealand

# Top 10 Countries Where Indian Rupee Has a Higher Value

The countries where the Indian Rupee has a higher value include the following.

S No	Country	1 Indian Rupee conversion to foreign currency
1	Vietnam	293.33 Vietnamese dong
2	Indonesia	183.55 Indonesian Rupiah
3	Paraguay	92 Paraguayan Guarani
4	Sri Lanka	3.58 Sri Lankan Rupee
5	Nepal	1.60 Nepalese Rupee
6	Cambodia	48.34 Cambodian Riel
7	Japan	2 Japanese Yen
8	Hungary	4 Hungarian Forint
9	South Korea	16 South Korean won
10	Laos	262.14 Laotian Kip

**Note:** The conversion rates mentioned above are based on 13th Sep, 2024 data and may fluctuate over time. For the most current and precise currency conversions, please consult official sources.

# Initiatives for Internationalization of Rupee

## CROSS-BORDER BORROWINGS IN RUPEE

Introduction of **Rupee Denominated** bonds, or **Masala Bonds**, since 2014 allowing Indian corporate to issue rupee denominated bonds overseas



## TRADE SETTLEMENT IN RUPEE

Biggest development, in July 2022, RBI issued a **comprehensive framework** to allow trade settlement in rupees through **Special Vostro Accounts**



## CURRENCY SWAPS

23 currency swaps agreed since 2018 with other nations including UAE, SAARC member countries, etc. in a bid to promote internationalisation of rupee.



## OTHER MEASURES

- Exploration on **domestic currencies use** for regional trade settlement at Asian Clearing Union.
- Enabling condition to link **domestic rupee interest rates and currency markets** with **offshores rupee markets**.
- **Permitting primary dealers** to act as **market makers** in forex market to improve market liquidity, etc.

# Opportunities for INR Internationalisation

## Global de-dollarisation trend

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- Countries diversifying reserves due to geopolitical risks → chance for INR as part of BRICS currency pool.

## India's trade growth

- Merchandise exports ~US\$450 bn (FY24) and services exports ~US\$340 bn → provides base for invoicing in INR.

## Growing financial markets

- India's equity market is the 5th largest globally, and its debt market is expanding → creating depth for INR assets.

## Diaspora remittances

- India receives ~\$120 bn (2023) in remittances, the highest globally → demand for INR among NRIs.

## Strategic geopolitical positioning

- India's ties with Global South, BRICS, SCO give scope for INR in bilateral trade.

# Challenges

## Current Account Deficit (CAD)

- Persistent CAD weakens the rupee's stability, limiting global trust.
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## Capital account convertibility

- India still has partial convertibility (restrictions on capital flows). Full convertibility is a prerequisite for true internationalisation.

## Low share in global trade

- India accounts for ~2% of global exports → limits demand for INR in global markets.

## Exchange rate volatility

- INR depreciation trends against USD (from ~₹45/\$ in 2010 to ~₹83/\$ in 2025) reduce its appeal.

## Global acceptance

- USD, Euro, RMB dominate trade. INR lacks wide acceptability in reserves (less than 1% of global forex reserves).

## Financial infrastructure

- Need for deeper bond markets, stable regulatory regime, and international clearing system

# Recent Developments (2024–2025 Data Points)

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- ✓ **RBI reports:** ~ **20 countries** have shown interest in trade settlement using INR (2024).
- ✓ **Russia-India trade:** A large share of Russian oil imports now settled in INR through Vostro accounts.
- ✓ **UAE agreement (2023):** India and UAE signed MoU for rupee-dirham settlement in oil and non-oil trade.
- ✓ **Global reserves:** INR share still small (under 1%), compared to USD (~58%), Euro (~20%), RMB (~3%).
- ✓ **Cross-border UPI launch:** With Singapore, UAE – facilitates INR use in retail payments.

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**THANK YOU**