

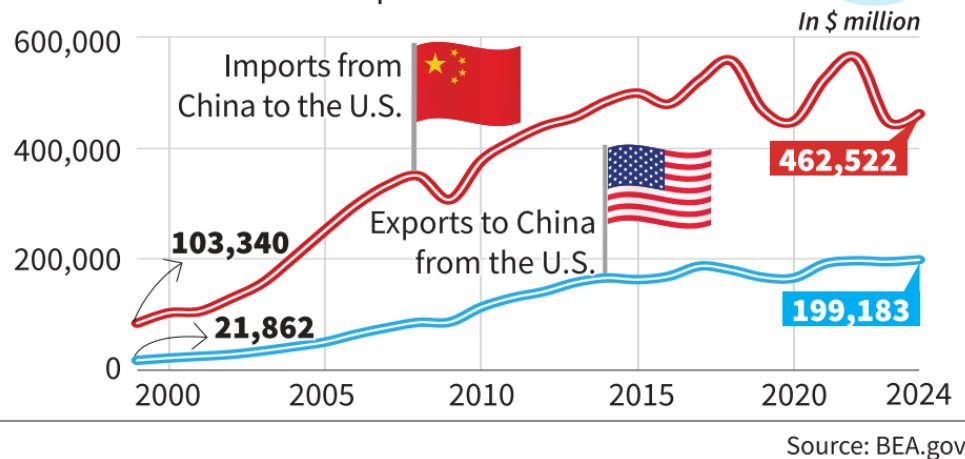
## China hits back with 34% tariff on all U.S. products

### Context :

- China imposes a **34% tariff** on all **U.S. imports** effective **April 10**, mirroring the **U.S. 34% tariff** on Chinese goods.
- This move is a **direct retaliation** to President Trump's '**Liberation Day**' tariff hike, aimed at asserting "reciprocity."

## Widening gap

Over years, China to U.S. imports have grown at a much faster rate than exports from the U.S. to China



### Escalation of Trade War

- U.S. tariffs under Trump target **Chinese exports**, citing unfair trade practices.
- China's retaliatory tariffs reflect a **tit-for-tat escalation**, intensifying the **U.S.–China trade war**.

### Rare Earth Export Controls

- China's Commerce Ministry announced **export restrictions** on rare earth elements, critical for:
  - **High-tech products** (e.g., Computer Chips, EV batteries)
  - **Defence & Aerospace** (e.g., Samarium)
  - **Healthcare** (e.g., Gadolinium for MRI machines)
- These controls are likely to disrupt global tech supply chains, especially in the U.S. defence and electronics sectors.

## Food Safety Actions

- China suspended **chicken imports** from **certain U.S. suppliers** due to:
  - Detection of **furazolidone**, a banned drug.
  - **Salmonella** in poultry.
  - **High mold content** in sorghum shipments from C&D Inc.
- These actions may be seen as **non-tariff barriers**, adding **pressure on U.S. agribusiness**.

## Trump's Response

- Trump's social media post blames China for reacting emotionally:  
"China played it wrong, They panicked — the one thing they cannot afford to do!"

## Geopolitical & Economic Implications

- The confrontation may impact:
  - Global trade stability
  - Stock markets and investor confidence
  - Supply chains involving **rare earths and agricultural commodities**
- China is leveraging its **strategic monopoly** on rare earths as a geopolitical weapon.
- The trade war's impact will be felt **beyond U.S. and China**, affecting **global economic growth** and **multilateral trading systems**.

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## 'U.S. tariffs may pare India's FY26 real GDP growth by up to 0.3%'

**Context :-** The U.S. under President Trump has announced new tariffs on select Indian exports. This move is expected to reduce India's FY26 GDP growth by up to 0.4%, primarily through export losses and currency depreciation.

### Impact on GDP Growth

- **Bank of Baroda(BoB) Estimate:** Real GDP growth revised **down to 6.6%** from the **Union Budget's 6.8%**.
- **Barclays Estimate:** Even more conservative, **6.5%** growth projected.
- **Monetary effect:**
  - Budget expectation: ₹200.7 lakh crore GDP.
  - BoB revision: ₹200.3 lakh crore (₹40,000 crore loss).
  - Barclays revision: ₹200.1 lakh crore (₹60,000 crore loss).

### Export Sector Disruption

- **Affected exports:** 9–11% of India's exports to the U.S.
  - **Sectors hit:** Electronics, Gems & Jewellery, Machinery, Garments.
  - These are **MSME-heavy sectors**, making them highly vulnerable to demand shocks.
- **Value at risk:**
  - FY24 exports to the U.S.: **₹6.4 lakh crore.**
  - **10% impact** = ₹64,000 crore in potential export losses.
  - Already a **2.4% decline in exports** till Jan 2025 before tariff effect.

### Exchange Rate Volatility & Inflation

- **Expected depreciation of INR** → raises import costs, especially for crude oil and electronics.
- **BoB model:**
  - 10% depreciation → Whole sale price index (WPI) inflation rises by 0.12–0.16% short term, 0.38–0.49% long term.
- **Why WPI?** Because it tracks **wholesale and tradable goods**, unlike CPI which includes more services and rural consumption.

### Monetary Policy Outlook

- **Rate cut expected:** Elara Securities predicts **50 bps rate cut** by RBI in FY26 to offset slowdown.

- **RBI dilemma:**
  - Growth needs stimulus via lower rates.
  - But depreciation-led inflation may limit space for aggressive cuts.

### Corporate Earnings & Bank Exposure

- Tariffs may force exporters to **cut prices** to stay competitive.
- This can **erode profit margins** and trigger layoffs or reduced production.
- **Banks at risk:** Sectors hit are **MSME-heavy**—a segment with already higher NPA concerns.

### Government & Diplomatic Response

- **Ministry of Commerce:** Negotiations with the U.S. are underway.
- **Way Forward :**
  - Exploring bilateral trade deal provisions.
  - Diversifying export destinations to reduce U.S. dependency.
  - Targeted sectoral relief for MSMEs.

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