

# US Presidential Election 2024: How Trump 2.0 impacts India's and Global Economy

***Long-term benefits clearly outweighs the short-term volatility & impediments..***

***On a different footing, comparison of almost all economic indicators (GDP, inflation, debt, deficit etc.) indicates that India fared quite well in managing Covid-19 as compared to US or any other country...explaining in large parts, the success of the incumbent Government's return to power in 2024 General Elections here....almost no other incumbent Government could survive the pandemic onslaught...***

Issue # 20, FY25    10-November-2024

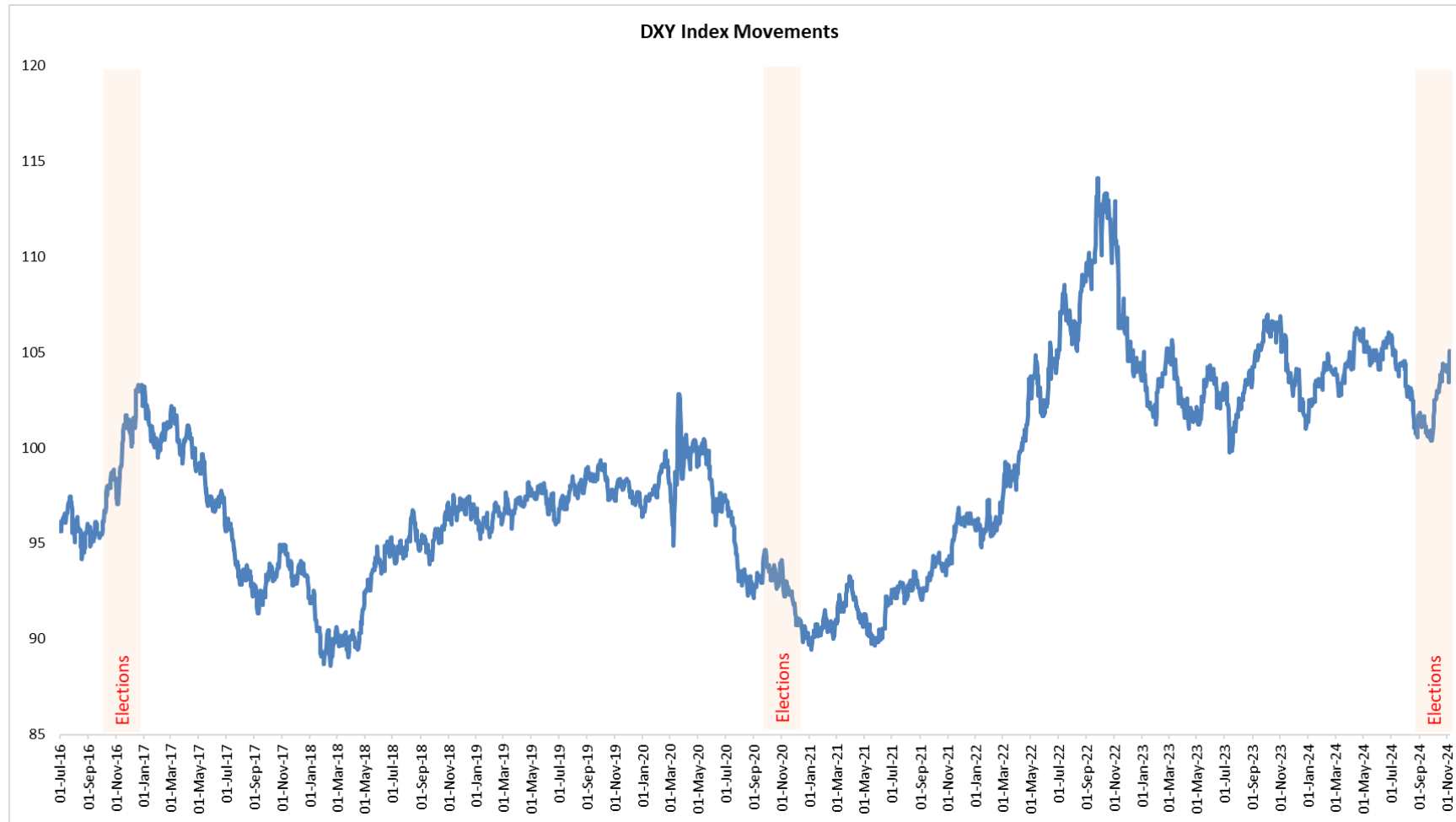
- ❑ **The second, and final, presidency of Trump may see him aggressively strategize to carve a niche watermark on the US (If not global) politics in the 21st century, drawing parallels from two heavyweights**
  - JFK in the early 60s (a tragically cut short tenure saw him proposing lower taxes, protecting the unemployed, increasing the minimum wages, and energize the business and housing sectors while also proposing to slash income taxes from a range of 20-91% to 14-65%, though intending to moderately cut the corporate tax rate from 52% to 47%);
  - As also Ronald Reagan in the initial 80s which is best described by Milton Friedman as "Reaganomics having four simple principles: Lower marginal tax rates, less regulation, restrained government spending (i) and, noninflationary monetary policy. While leading to a significant rise in prosperity, federal spending and the national debt increased disproportionately during intermittent periods
  
- ❑ However, the statesman being most identified with Trump is 31st President Herbert Hoover (1929-33), whose single-minded persuasion of tariffs and protectionism led to signing of the Smoot-Hawley Act of 1930, ....Trump invoking Hoover in pre-poll feverish electoral rallies....will this result in a world of higher tariffs?....Not much likely.....
  
- ❑ Reagan, despite having a frosty relationship with Paul Volcker, the most legendary of Fed chairs, allowed him the full two terms. We thus believe that Fed decisions will continue to be independent in terms of managing the macros... despite all the noise...
  
- ❑ The focal points of Trump 2.0 should rotate/revolve around the stated economic policies, tax to tariff to jobs and war on prices while taking a tough stand on issues like illegal migrations and making America competitive in business. It's off the shelve policies.. As it comes... would be equally interesting and worth watching...also, the Middle East may waltz a little faster in early days

- ❑ Donald J Trump's historical comeback, as the 47<sup>th</sup> President of the United States, adds a morphine shot to the markets and select asset classes even as focus is now shifting to wider economic ramifications and supply chain realignments
- ❑ **On a different yet important footing, comparison of almost all economic indicators (GDP, inflation, debt, deficit etc.) indicates that India fared quite well in managing covid-19 as compared to US which could explain, in large parts, the success of the incumbent Government's return to power in 2024 General Elections here....almost no other incumbent Government could survive the pandemic onslaught...**
- ❑ Trump's victory introduces a mix of challenges and opportunities for India. While the potential for increased tariffs, H-1B restrictions, and a strong dollar could bring short-term volatility...**But it also presents India with long term incentives to expand its manufacturing, diversify export markets, and enhance economic self-reliance**
- ❑ **...Against generally accepted conventional wisdom, DXY does not seem to have any specific trend when analyzed through recent elections....**
- ❑ **The benchmark yields** have been choppy and inched up post election results but have shown signs of cooling off after Fed cut rates by a quarter point this week...**the yields would likely move sideways, looking intently at both Fed as also the Capitol Hill for firm cues**
- ❑ **Back home, 10-year yield shows no obvious trends, and effect will be context sensitive going ahead... USD/INR has shown range bound movement and rupee can have brief spell of depreciation followed by appreciation...Volatility in Indian equity markets showing signs of reduction..**
- ❑ Importantly, Indian banks will be able to absorb shock as capital position has improved significantly. The trade finance business outlook of the banks is neutral as tariff policy of the US will disrupt trade...Cross border flow of capital and dollar liquidity will be comfortable as US Fed is in accommodation mode

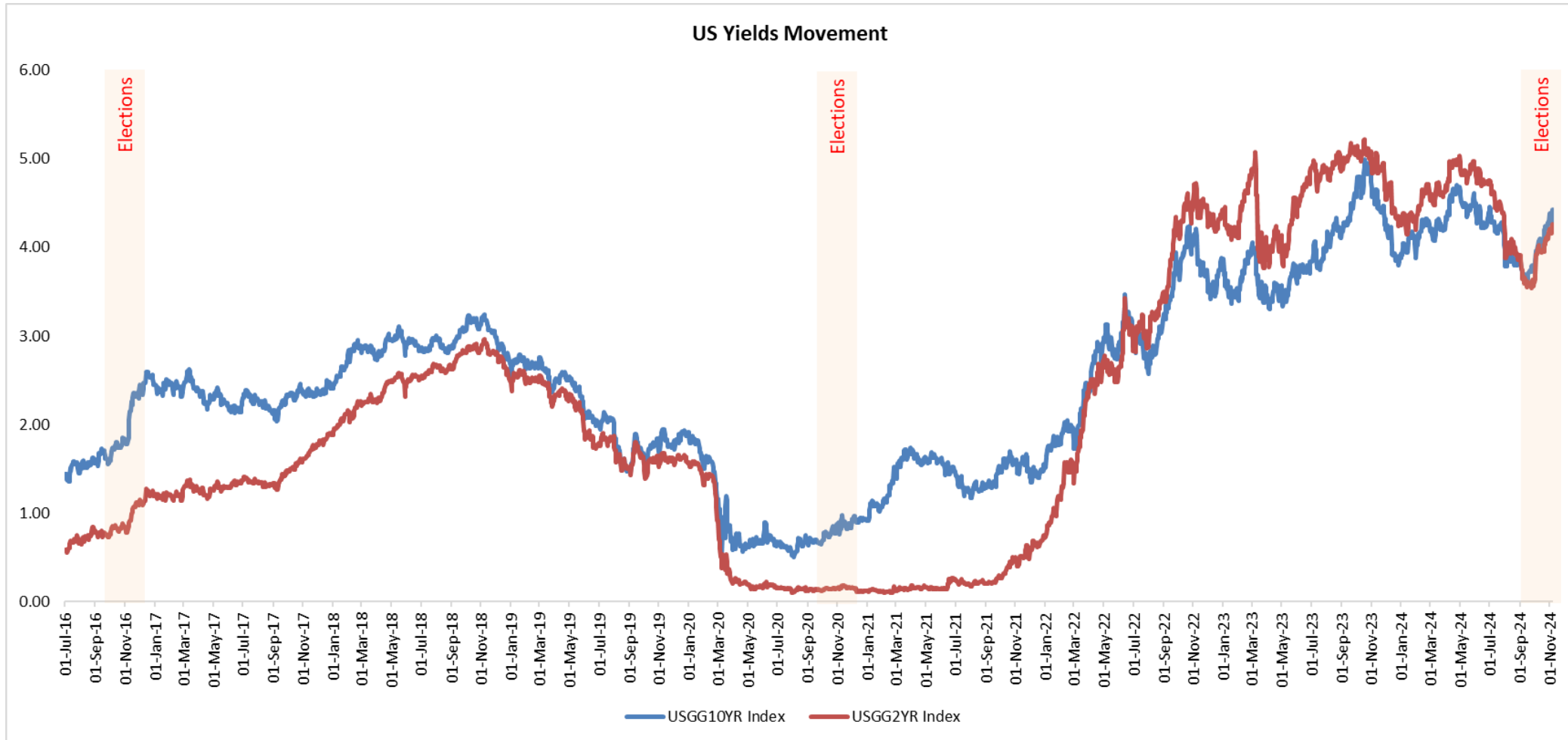
- ❑ **Most importantly, Indo-US trade relations, wherein India lost concessions under Generalized System of Preferences (GSP) and though India's GSP status has still not been restored, a commodity wise breakup reveals rise in India's export of certain commodities in which it has gained comparative advantage over China. Footwear, Minerals, Chemical and Electrical and Machinery Exports embrace this pattern...**
- ❑ Basis our analysis, during 2017-2021, Revealed Comparative Advantage was seen in Metals, Minerals, Chemicals, Footwear, Textiles and Clothing Intermediate Goods ( RCA >1)...**It is thus most likely that India will reap benefits of its comparative advantage over China under Trump 2.0. Further, given the global supply chain relocation and Trump 2.0 sectors such as Pharmaceuticals, Textiles, Electronics are likely to gain....**
- ❑ **....Tariffs of 25% on steel, 10% on aluminum and ~30% on washing machines were imposed in 2018. Even then...Iron and Steel exports from India to USA rose by 44.7% during FY20 to FY21.** India has maintained trade surplus with the USA implying that Indian exports have been robust despite the tariff which was imposed during Trump 1.0
- ❑ The fear that rupee will depreciate sharply is unfounded. During the Trump 1.0, rupee depreciated by 11%, less than it depreciated during Biden term... While a stronger dollar might result in short-term capital outflows for short-term as investors flock to dollar-based assets, on a positive note, a lower rupee might provide an export advantage, potentially boosting revenues in sectors like textiles, manufacturing, and agriculture

- ❑ India may see shifts in foreign direct investments (FDIs) during Trump 2.0. Trump 1.0 administration saw significant regulatory changes aimed at attracting investments back to the US and this was reflected in data also...
- ❑ **...However...India is no longer dependent on the traditional sources of FDI inflows...** unlike the recent past, FDI is now coming in many new sectors like non-conventional energy, sea transport, medical and surgical appliances, etc.. **This trend could continue thus offsetting the possibility of decline in FDI flows in traditional sectors in Trump 2.0 if any...**Basis our research, we believe...there are 12 such rising sectors
- ❑ Should the issue of non-immigrant visas put roadblock to work visas, particularly the H-1B visa program, it may impact the Indian IT & ITes sectors. **However, this could also, could eventually strengthen own domestic manufacturing through “Atmanirbhar Bharat”** initiative as we may look at accelerating reforms in domestic production, self-reliance, and inward investment
- ❑ Strategic Government policies, robust international demand and strong partnerships with US have a positive bearing on India's defence exports that have surged over 30 times in the last decade. **The strategic cooperation may gain further momentum given the increasing importance bestowed to the Indo-Pacific region**

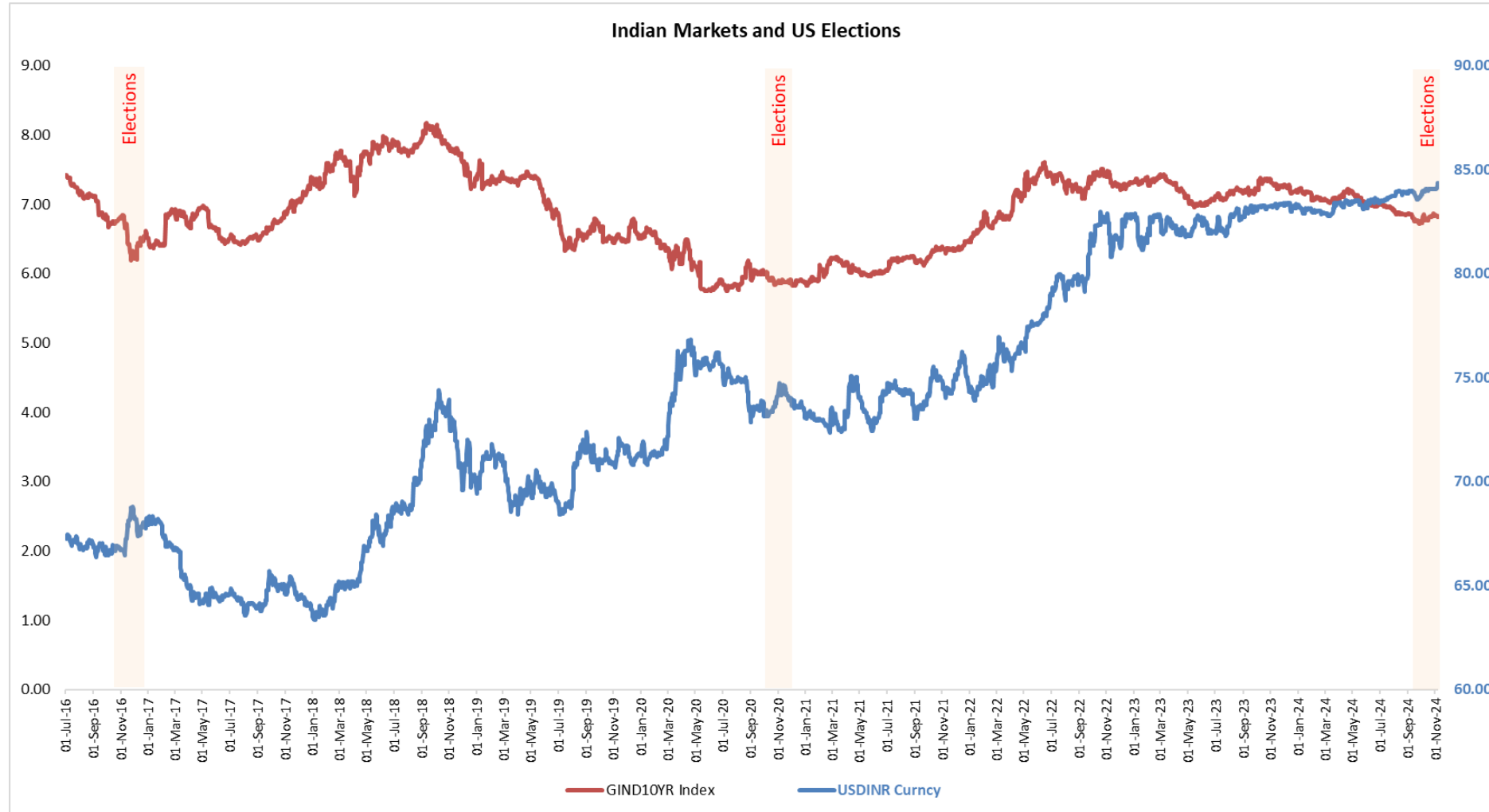
# DXY movement around Trump victory is marked by brief spell of dollar appreciation..



- ❑ Between to elections DXI has no general trend
- ❑ Dollar may weaken after brief spell of strengthening

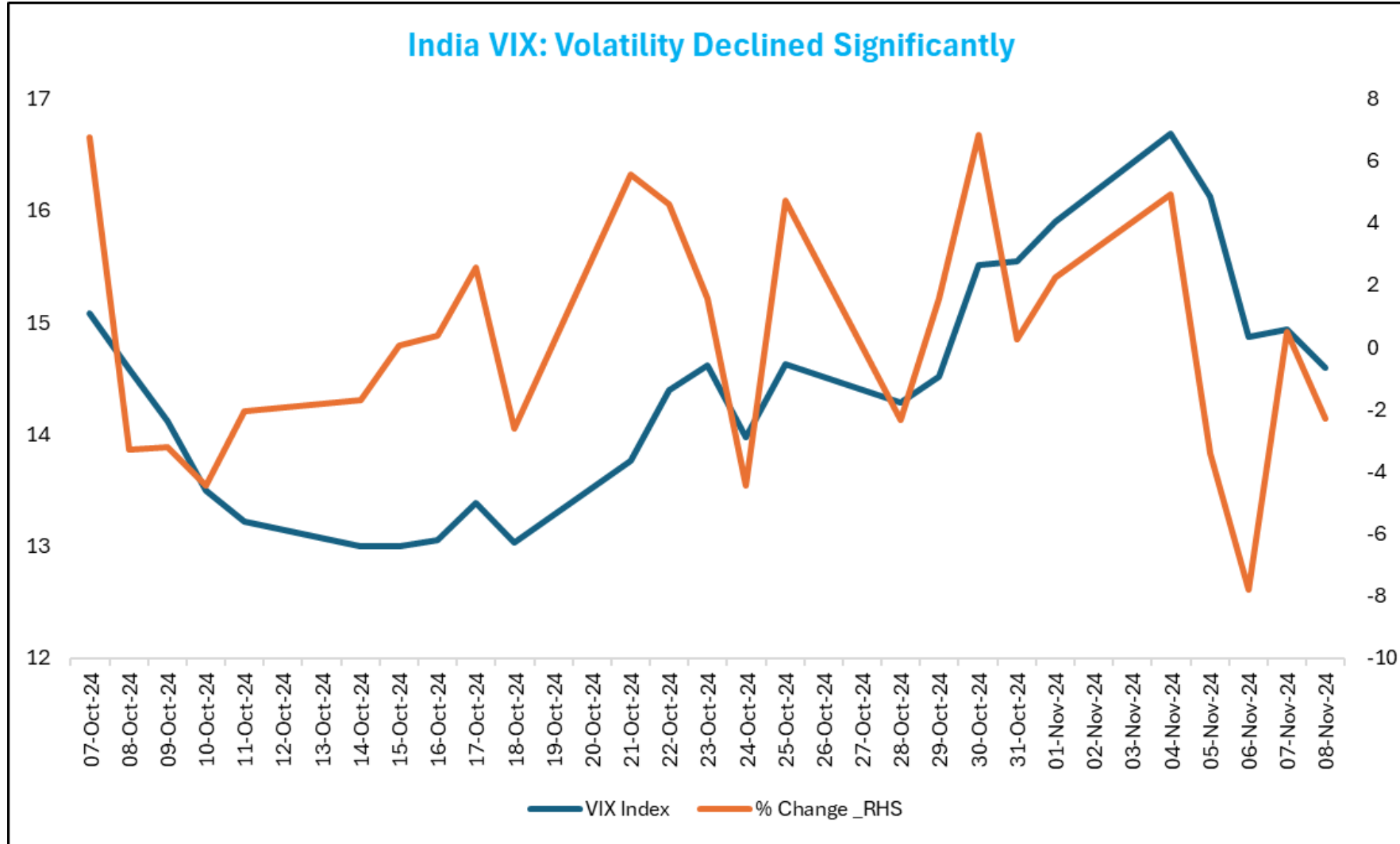


- ❑ Trump victory marked by hardening of yield indicating strong fiscal policy stimulus
- ❑ Coupled with Federal Reserve easing, US yields may move sideways in long run



- ❑ 10-year yield show no obvious trends, and effect will be context sensitive going ahead
- ❑ USD/INR has shown range bound movement and rupee can have brief spell of appreciation following short term bouts of volatility





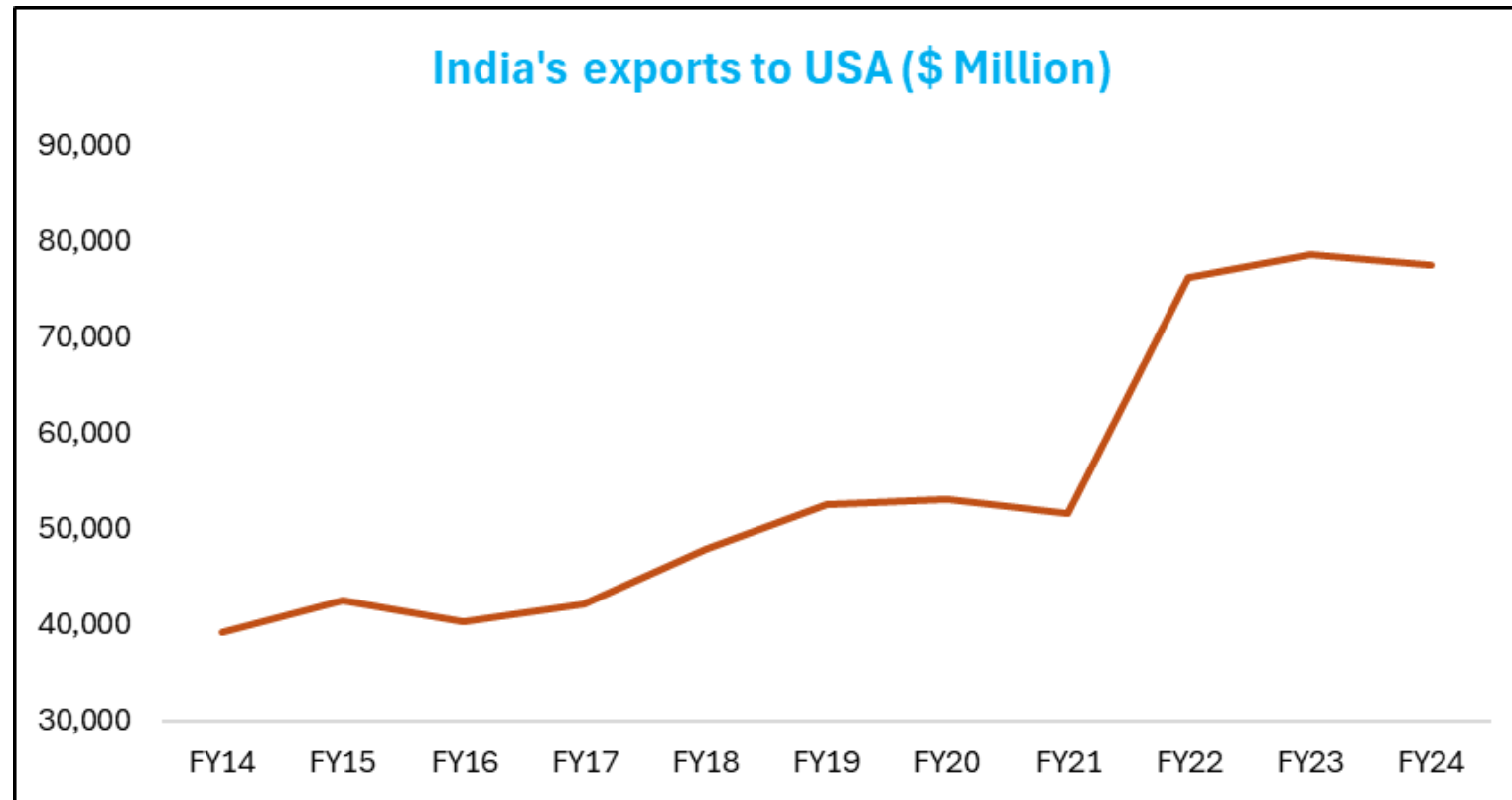
□ Volatility in Indian equity markets has reduced...which may be stable in next few days

- ❑ A critical factor for India will be Trump's stance on US-India trade relations. In Trump 1.0 administration, India lost its Generalized System of Preferences (GSP) status, which had allowed tariff-free exports of certain goods to the US. However, Trump 1.0 also showcased strong strategic ties between the nations with signing of Indo-US 2+2 Dialogue
- ❑ If Trump continues with his "protectionist" stance, India might face similar restrictions impacting sectors like pharmaceuticals, textiles, and engineering goods

Proposed tariff by Donald Trump (2024 elections)	
Universal Tariff	$\geq 10\%$
Tariff on Chinese imports	~ 60%
Tariff on Mexico	~ 25%

## ..Proposed tariffs however may not impact India-US Trade Relations

- ❑ In recent years, Indian exporters have expanded their US market share, with the USA. being one of India's top trading partners. India's exports to the USA has witnessed a continuous rise.
- ❑ A reduction in trade benefits or the imposition of tariffs could pressure profit margins, prompting Indian companies to explore alternative markets or invest more in domestic markets to offset US market risks. **It is also likely that India can witness a rise in exports if the nation can reap the benefits of its comparative advantage**



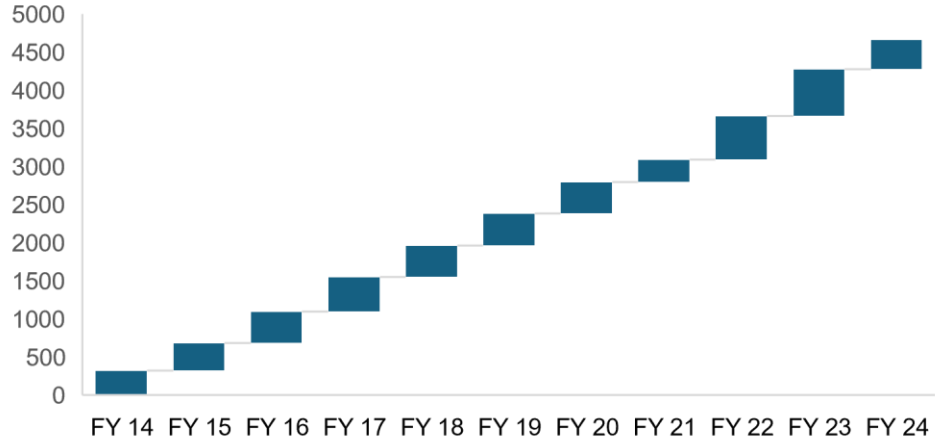
- ❑ Tariffs of 25% on steel, 10% on aluminum and ~30% on washing machines were imposed in 2018
  
- ❑ **But Iron and Steel exports from India to USA rose by 44.7% during FY20 to FY21**
  
- ❑ India has maintained trade surplus (merchandise) with the USA implying that Indian exports have been robust despite the tariff which was imposed during Trump 1.0

Iron and steel exports to US	
Year	Value (US \$ mn)
2019-20	170.64
2020-21	246.95

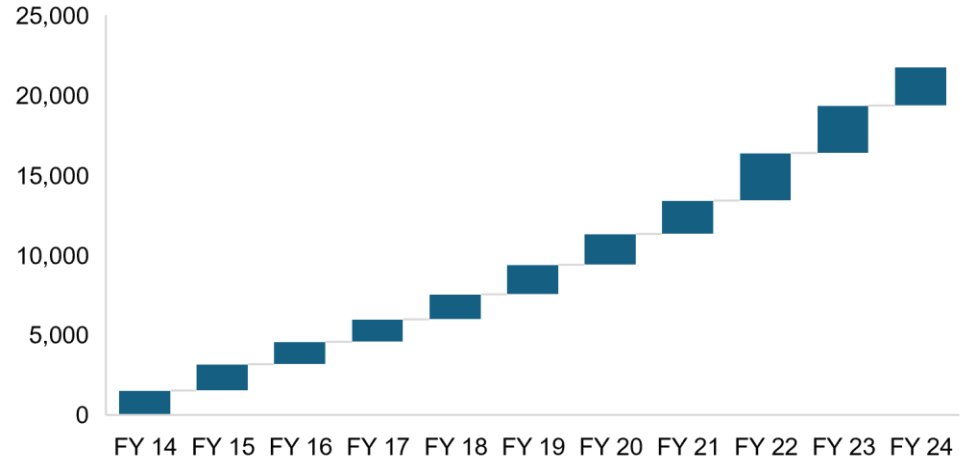
US India trade dynamics		
	Year	Trade surplus (\$ Million)
Obama 2.0	2013-14	16,637
	2014-15	20,634
	2015-16	18,555
	2016-17	19,905
Trump 1.0	2017-18	21,267
	2018-19	16,857
	2019-20	17,269
	2020-21	22,735
Biden	2021-22	32,853
	2022-23	27,679
	2023-24	35,320

- ❑ **With India's GSP status still not restored, a commodity wise breakup actually reveals a rise in India's export of certain commodities in which it has gained comparative advantage over China**
- ❑ Deep dives into selected commodity exports ( in which India has gained comparative advantage over China) reveals that our exports have been growing despite the noises in the global trade scenarios...This hints towards India's rising integration in global value chains which marks a silver lining for India despite the global uncertainties
- ❑ With schemes such as PM- MITRA, RoDTEP and Mega Food Parks in place, it is likely that India will establish itself in the global trade in the coming years.
- ❑ With established comparative advantage in footwear , India has witnessed rising footwear exports to the USA has been rising with an increase of 8% in FY23 as compared to previous period...Minerals exports have also witnessed a rise with an increase of 33% in FY23 in comparison to FY 22
- ❑ A similar pattern can be seen in chemical and electrical and machinery exports with electrical and machinery exports witnessing a steep rise

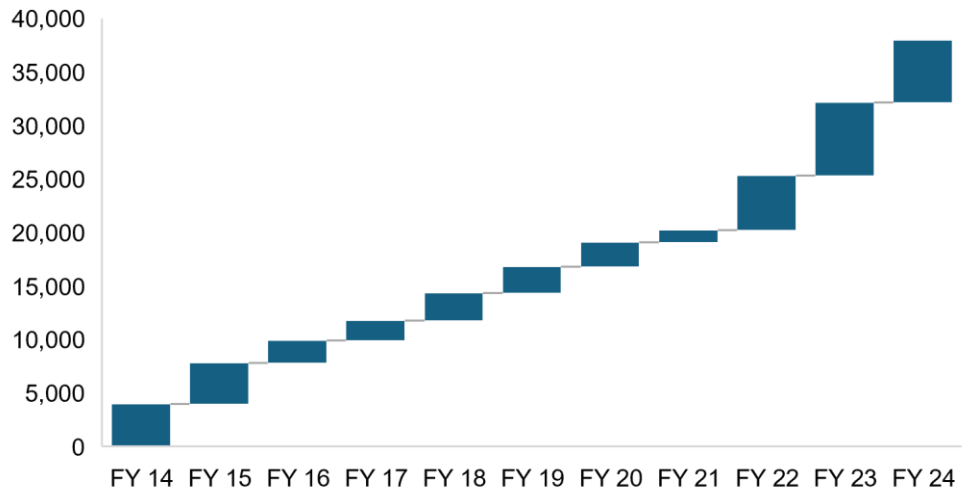
### Footwear exports to the USA ( US \$ mn)



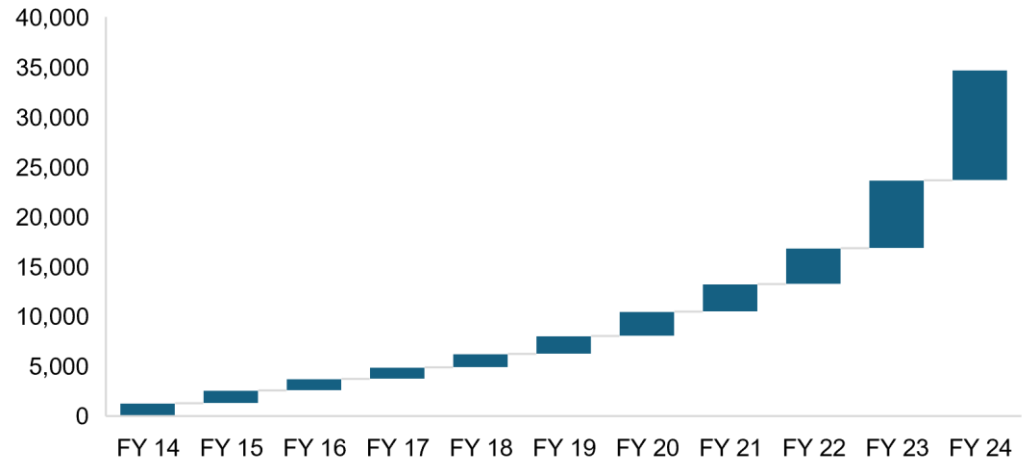
### Chemicals exports to the USA ( US \$ mn)



### Mineral exports to the USA ( US \$ mn)



### Electrical and machinery exports to the USA ( US \$ mn)



- ❑ During 2017-2021 Revealed Comparative advantage was seen in metals, minerals, chemicals, footwear, textiles and clothing intermediate goods. (RCA >1)
- ❑ Capital goods, transportation, food products, vegetables witnessed a rising trend in the same period (RCA <1 but rising)
- ❑ **Opportunities under Trump 2.0: It is likely that India will reap benefits of its comparative advantage over China under Trump 2.0**
- ❑ Given the global supply chain relocation and Trump 2.0 sectors such as pharmaceuticals, textiles, electronics are likely to gain

Product-wise Revealed comparative advantage of India over China						
Revealed comparative advantage	Product Group	2017	2018	2019	2020	2021
Established	Intermediate goods	3.0	3.1	2.6	2.8	2.7
	Hides and Skins	3.8	3.7	2.8	1.5	1.3
	Stone and Glass	4.0	3.8	2.7	3.0	2.8
	Minerals	2.6	1.9	2.2	2.6	2.0
	Metals	3.5	2.3	1.3	3.2	3.4
	Footwear	5.4	4.6	5.5	4.6	7.4
	Textiles and Clothing	6.2	6.7	5.8	4.3	5.8
	Chemicals	2.0	2.6	2.7	2.0	1.8
	Vegetable	0.9	1.0	1.7	1.6	1.8
Increasing	Food Products	0.3	0.3	0.3	0.4	0.4
	Transportation	0.1	0.1	0.1	0.1	0.2
	Mach and Elec	0.2	0.2	0.3	0.2	0.3
	Wood	0.2	0.3	0.4	0.6	0.8
	Capital goods	0.2	0.2	0.3	0.2	0.3

Source: SBI Research; WITS

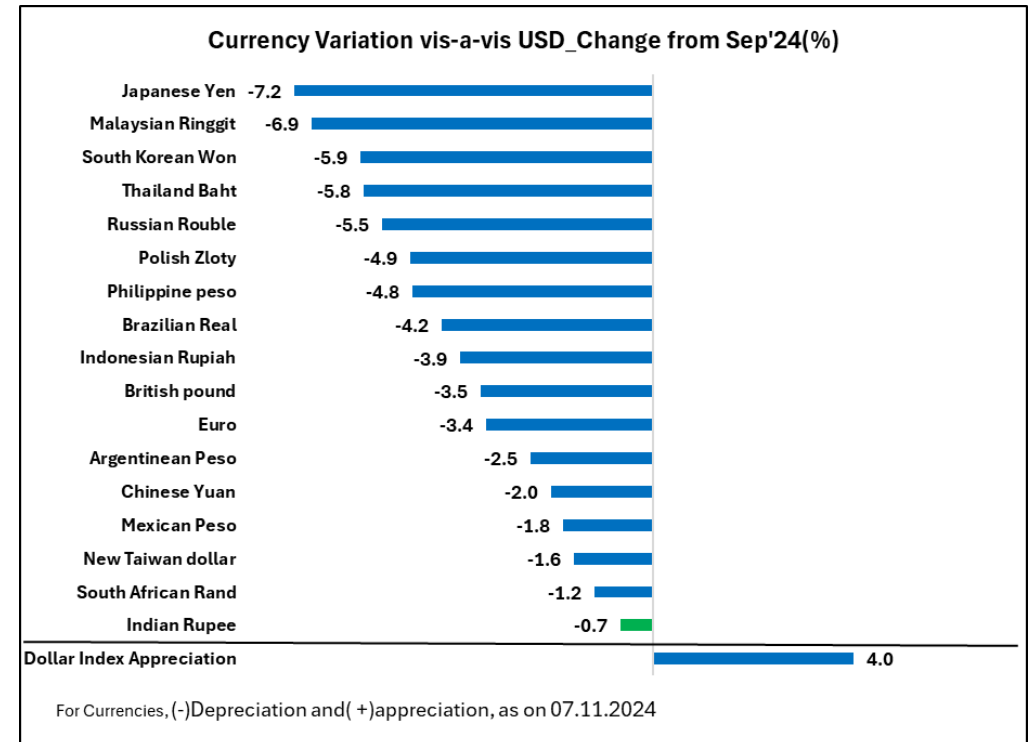
- ❑ US Fed cut its benchmark interest rate by 25 bps to a range of 4.5% to 4.75%, its lowest since February 2023, and Fed hints at more gradual cuts in the future
- ❑ However, return of Donald Trump to the White House may change the dynamics, as Trump's policies are expected to be inflationary in nature and may result in dollar gaining strength. So, the December FOMC meeting is the next important milestone for the markets as it also comes with a statement of economic indicators
- ❑ Importantly, a stronger dollar and higher inflation may force US Fed not to decline rates further
- ❑ Further, the depreciation of INR may increase the import cost for oil and other commodities. **As per our estimate, a 5% decline in Rupee, will increase inflation by 25-30 bps. So, the impact will be very less on inflation**



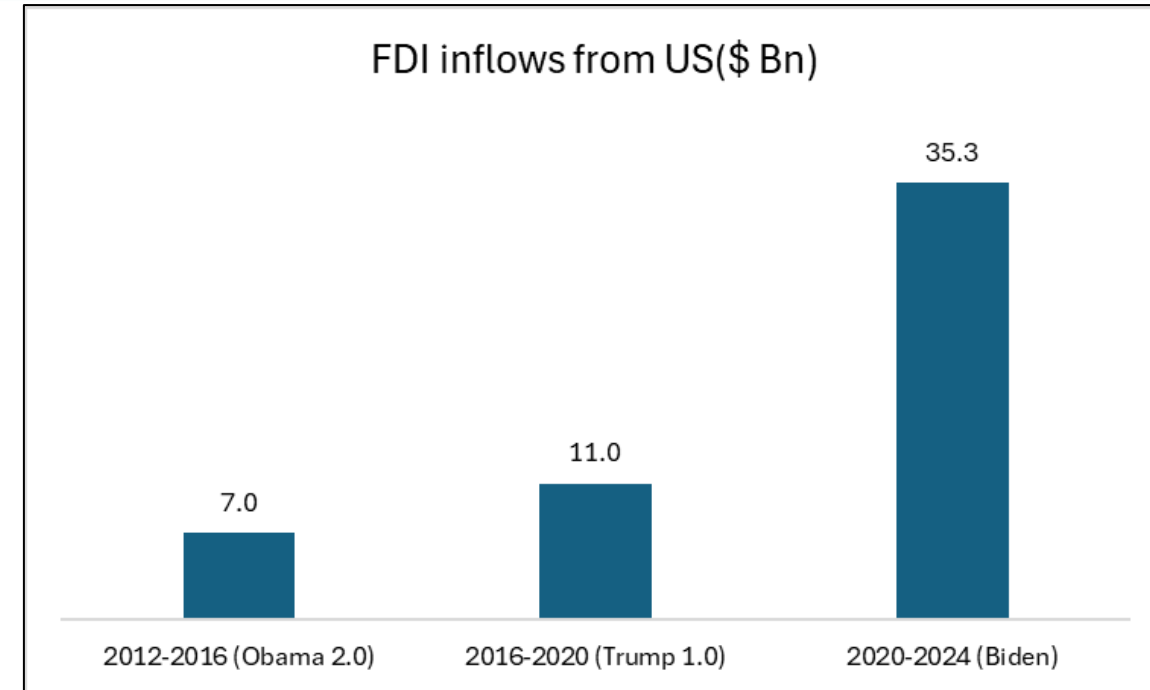
- ❑ The fear that rupee will depreciate sharply is unfounded. During the Trump 1.0, rupee was depreciated by 11% less than it was depreciated during Biden term
- ❑ Still, we expect a depreciation of 8-10% during Trump 2.0
- ❑ While a stronger dollar might result in short-term capital outflows for short-term as investors flock to dollar-based assets, on a positive note, a lower rupee might provide an export advantage, potentially boosting revenues in sectors like textiles, manufacturing, and agriculture

Rupee-Dollar Exchange Rate			
Presidency term	Average Exchange rate (INR)	Appreciation(+)/Depreciation(-)	Daily volatility
2012-2016 (Obama 2.0)	62.2	-28.7	4.1
2016-2020 (Trump 1.0)	69.2	-11.3	3.7
2020-2024 (Biden)	79.3	-14.5	4.1
2024 last one month	84.1	-0.3	0.1
2025-2029 (Trump 2.0)	87-92	-8 to -10	-

Source: SBI Research



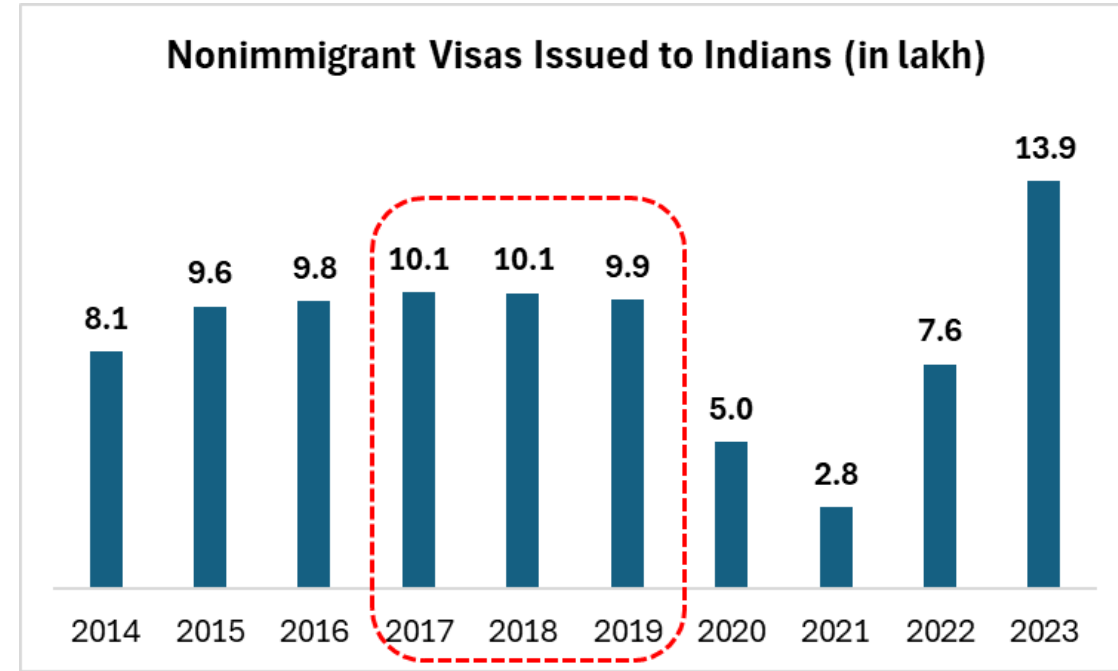
- ❑ India may see shifts in foreign direct investments (FDIs) during Trump 2.0
- ❑ Trump 1.0 administration saw significant regulatory changes aimed at attracting investments back to the US and this was reflected in data also. India received only \$11 FDI inflows during Trump 1.0
- ❑ If similar policies are implemented, some MNCs might shift focus from expanding abroad to re-investing in the US
- ❑ **However, India, with its robust growth prospects, large consumer base, and government-backed initiatives, might remain attractive to sectors less impacted by trade tensions, such as renewable energy, digital services, and manufacturing**



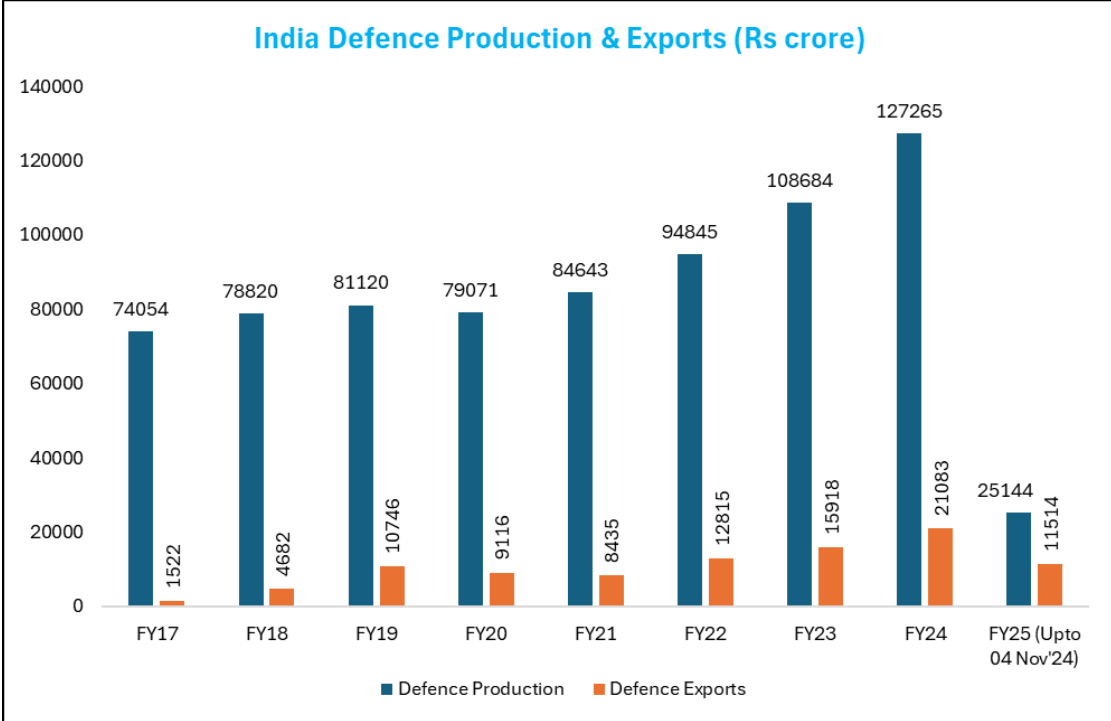
- ❑ India is no longer dependent on the traditional sources of FDI inflows
- ❑ In the recent past FDI is coming in many new sectors like non-conventional energy, sea transport, medical and surgical appliances, etc.
- ❑ **We have identified 12 such rising sectors where in 2024 India received half of the FDI inflows as compared to 18.7% share just 3 years back (Mar-21)**

Sector-wise FDI inflows in India					
Sector	FDI (\$ Mn)		Times Increase	% share	
	Mar-21	Mar-24		Mar-21	Mar-24
Services Sector	5060	6640	1.3	8.5	14.9
Trading	2608	3865	1.5	4.4	8.7
Non Conventional Energy	797	3764	4.7	1.3	8.5
Power	374	1702	4.6	0.6	3.8
Hospital and Diagnostic Centres	501	1530	3.1	0.8	3.4
Sea Transport	294	1096	3.7	0.5	2.5
Information and Broadcasting	314	853	2.7	0.5	1.9
Electronics	375	696	1.9	0.6	1.6
Cement and Gypsum Products	4	613	162.3	0.0	1.4
Food Processing Industries	393	608	1.5	0.7	1.4
Hotel and Tourism	369	511	1.4	0.6	1.2
Medical and Surgical Appliances	69	483	7.0	0.1	1.1
<b>Sub-total</b>	<b>11159</b>	<b>22361</b>	<b>2.0</b>	<b>18.7</b>	<b>50.3</b>
Memo:					
Computer Software and Hardware	26145	7973	0.3	43.8	17.9
Source: DPIIT; SBI Research					

- If the Trump administration opts to limit work visas, particularly the H-1B visa program, Indian IT & ITes sectors may see increased costs. H-1B visa restrictions can lead to decreased labour mobility, affecting the hiring capabilities of Indian IT companies operating in the US. This may result in Indian firms to allocate resources towards hiring locally in the US at a higher cost, which could strain margins for companies
- During Trump 1.0 the non-immigrant visas issued by US largely stagnant around 10 lakh per year. However, in 2023, ~14 lakh Indians received non-immigrant visas
- **While Trump’s policies may pose challenges, they also offer India an opportunity to strengthen its own domestic manufacturing through its “Atmanirbhar Bharat” initiative. We may look to accelerate reforms in domestic production, self-reliance, and inward investment**



- India's defence exports have reached an all-time high, surging from ₹686 crore in FY14 to ₹21,083 crore in FY24, reflecting a remarkable increase of over 30 times in export value over the past decade. This is due to the strategic Government policies, robust international demand and strong partnerships with US
- In defence, India and the US have fostered closer ties over recent years, with the US becoming a significant defense supplier to India. India's defence exports share to US is around 50%, which is due to strong trade relationship as American companies coursing systems, and components from India
- **A Trump administration, historically supportive of India's defense aspirations, may strengthen these ties, particularly in the Indo-Pacific region. Continued defense collaboration could drive technology transfers, investments in defense manufacturing, and joint ventures, all of which could add value to India's economy**



# How Pandemic Management Impacted Election Results

- ❑ In a close Presidential election, every vote counts, and any subgroup of voters could have a significant impact on the outcome
- ❑ The recent victory of Trump indicate that except population older than 65 years Republican share of all other age-groups increased in 2024 vis-à-vis 2020, with significant increased witnessed in young voters
- ❑ This gives an important message that even though US economy has been doing well, **a higher inflation could have definitely played a spoilsport on the Biden administration....**

Age wise voting pattern (%)								
Age bracket	2012		2016		2020		2024	
	Dem	Rep	Dem	Rep	Dem	Rep	Dem	Rep
18-29	60	37	58	28	61	35	54	43
30-44	52	45	51	40	55	43	49	48
45-64	47	51	45	51	46	53	44	54
65+	44	56	44	53	48	52	49	49
Total	51	47	48	46	51	47	47	52

Source:SBI Research, Pew Research centre, BBC

- Almost all economic indicators (GDP, inflation, debt, deficit, etc.) indicate that India fared quite well in managing covid-19 as compared to US
- This has reflected in the election results of India also where incumbent Government returned to the power in 2024

How Covid-19 was managed										
Indicator	India					US				
	FY20	FY21	FY22	FY23	FY24	2019	2020	2021	2022	2023
Real GDP Growth	3.9	-4.1	9.4	6.7	7.2	2.6	-2.2	6.1	2.5	2.9
Inflation	4.8	6.2	5.5	6.7	5.4	1.8	1.2	4.7	8.0	4.1
Rate cut/hike	-115.0	-	250.0	-	-	-	-150.0	-	525.0	-
Fiscal Deficit as % of GDP	4.6	9.2	6.7	6.4	5.6	4.6	14.7	11.7	5.3	6.1
Government gross debt as % of GDP	75.0	88.4	83.5	81.7	83.0	108.0	131.8	124.5	118.6	118.7
CAD as % of GDP	-0.9	0.9	-1.2	-2.0	-0.7	-2.1	-2.8	-3.7	-3.9	-3.3
<i>Memo:</i>										
Covid deaths (Lakhs)	5.3					12.2				
Covid deaths/ 1 Million population	379					3642				
Source: SBI Research, WEO IMF, FRED										





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