



# The Influence of Trump's Tariff Policy on India's Monetary Policy Adaptation to Global Trade Disruptions in the Digital Age

Subhash Yadav<sup>\*1</sup> and Suresh S. Kawitkar<sup>2</sup>

<sup>1</sup>Assistant Professor, SGPC 's Guru Nanak Institute of Management Studies, Mumbai, Maharashtra, India [subhashyadav0508@gmail.com](mailto:subhashyadav0508@gmail.com)

<sup>2</sup>Professor, ISME, Atlas SkillTech University BKC, Mumbai, Maharashtra, India [surkawi@rediffmail.com](mailto:surkawi@rediffmail.com)

## Abstract

**Purpose** – This paper examines the impact of the Trump administration's tariff policy on India's monetary policy adaptation in response to global trade disruptions, with a particular emphasis on the digital trade era. It attempts to comprehend the manner in which the United States' implementation of protectionist measures led to monetary policy adjustments in India, such as decreases in the Cash Reserve Ratio (CRR) and rate cuts.

**Methodology** – This study employs a qualitative secondary research methodology to synthesize findings from peer-reviewed publications, policy reports, and prominent financial newspapers. A thematic content analysis has been employed to identify the primary mechanisms through which US tariffs influenced India's monetary policy responses.

**Results** – The study indicates that Trump's tariff approach caused increased uncertainty in global trade, leading to devaluation pressures on the Indian Rupee and risks of imported inflation. In response, the Reserve Bank of India (RBI) enacted expansionary policies, such as interest rate reductions and CRR decreases, to strengthen the domestic economy and liquidity while alleviating foreign shocks.

**Conclusions** – This research enhances the comprehension of the influence of foreign trade protectionism on domestic monetary policy in developing economies. It underscores the difficulties encountered by policymakers in reconciling growth, inflation, and exchange rate stability within a digitally interconnected global economy.

**Keywords** : Trump Tariff Policy, India's Monetary Policy, Cash Reserve Ratio (CRR), Global Trade Disruptions, Digital Trade Era

## 1. Introduction

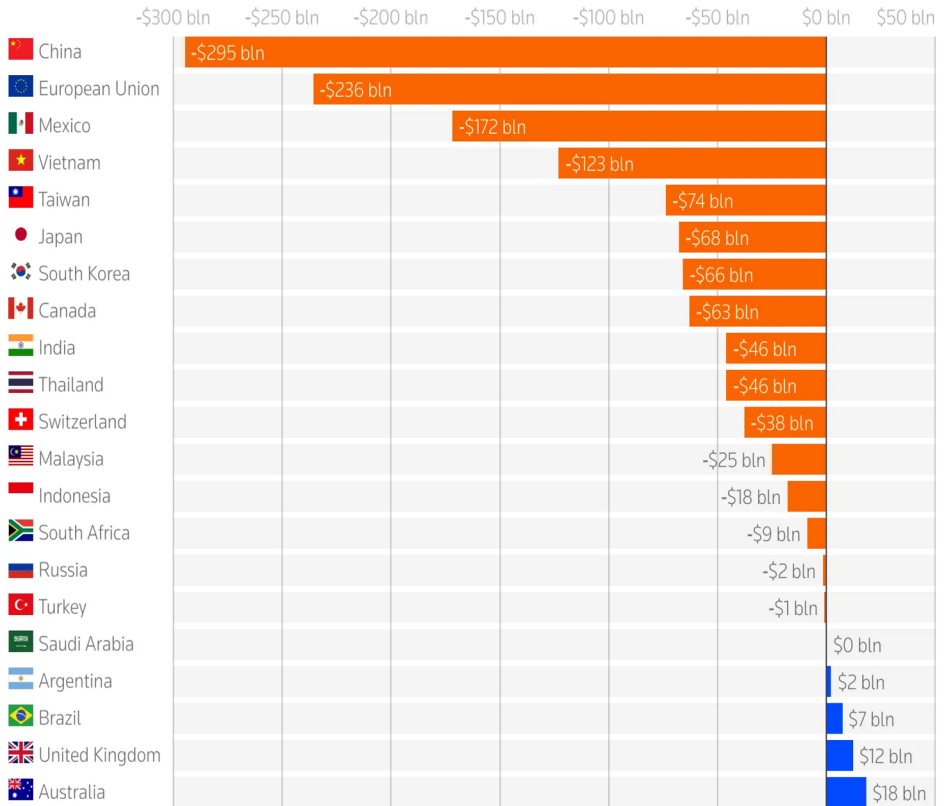
Amid escalating trade protectionism and changing geopolitical interests, the United States has enacted a comprehensive tariff scheme. On April 2, President Donald Trump announced a comprehensive trade program, which he referred to as “Liberation Day,” intended to tackle America's substantial \$1.2 trillion trade imbalance with all trading partners. The action signified a significant change in U.S. economic policy, as Trump implemented a dual-tier tariff system intended to punish what he saw as years of inequitable trade practices. In recent years, U.S. tariffs have become fundamental to the nation's overarching economic and geopolitical policy. Historically evaluated only via trade balances and industrial protection, tariffs now impose a macro-financial impact, significantly affecting financial

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markets, monetary policy, and global economic stability. This article analyzes the impact of tariff interventions on stock market dynamics, central bank interest rate determinations, and their role in inflationary or deflationary trends.

### US goods trade deficit or surplus with major trading partners in 2024



Note: Countries listed by US Trade Representative in February 25 request for comments

Source: US Census Bureau | P. Thal Larsen | March 31, 2025



In addition to the baseline duty, Trump implemented country-specific "reciprocal tariffs," set to commence on April 9. These tariffs attempt to equalize international commerce and mitigate the U.S. trade deficit by focusing on nations with significant trade surpluses, including India, China, Vietnam, and the European Union.

#### 2. Objective of the study:

This paper analyzes the implications of trade tariffs imposed by the USA on India concerning the policy adjustments implemented by the Reserve Bank of India. To examine the impacts of protectionist policies implemented by the USA on India's

macroeconomic indicators and to provide solutions for policymakers to mitigate the adverse impact on India.

### 3. Literature Review:

**Praveen, P., Kamath, M.M.** examined the impact of monetary policy instruments used by the RBI and the Federal Reserve on GDP, WPI, PPP, PCI, and BOP. Correlation and regression analysis were performed using SPSS using data from the RBI, World Bank, and FRED for the years 2010 to 2021. Literature underscores the limited efficacy of RBI's instruments and the Fed's changing function. Principal findings indicate negative correlations between the majority of Indian policy instruments and economic indices, while U.S. instruments, such as lending rates, have favorable impacts. The research finds that monetary policies substantially influence economic results, assisting policymakers in formulating effective, data-informed choices.

**Sharma, S.P.** analyzed the implications of Trump-era tariffs on global trade dynamics and their impact on the Indian economy. It seeks to comprehend trade disruptions, supply chain modifications, and India's strategic reaction. The research, derived from secondary data, indicates that increased tariffs have increased global inflation and hampered production and investment; yet, India's exports climbed from 2% in 2018 to 2.5% in 2024. Literature emphasizes the dangers of protectionism while showcasing India's resilience via reforms and supply chain integration. Notwithstanding transient disruptions, the report indicates that India's robust fundamentals, diversification policies, and global engagement have positioned it well.

**Corden, M., Garnaut, R.** examined the macroeconomic and microeconomic effects of President Trump's key policy initiatives—substantial tax reductions and aggressive protectionist trade measures. The aim is to analyze their influence on U.S. trade balances, employment trends, income distribution, and international economic connections. The paper, via theoretical analysis and historical analogies, concludes that tax reductions during full employment result in augmented budget and trade deficits, increased interest rates, and an appreciated currency rate. While protectionist policies may provide short-term advantages to certain industries such as steel and aluminum, they ultimately diminish national welfare and disrupt commerce. Literature highlights the reciprocal benefits of free trade and the extensive drawbacks of protectionism. The study indicates that these measures would probably deepen U.S. deficits, diminish average incomes, and spark international retaliation endangering long-term stability.

**Saliya, C.A.** investigated the many impacts of U.S. tariff policy, focusing on its economic, strategic, and financial implications across short-, medium-, and long-term periods. This study using desk research techniques to integrate academic and policy-oriented literature, assessing the effects of tariffs on innovation, employment, national security, and global supply networks. The studied literature emphasizes both hazards, including inflation, supply chain disruptions, and financial instability, as well as prospects for reindustrialization and structural changes. Principal results indicate that tariffs, although disruptive, may stimulate adaptive changes in developing countries and facilitate industry recovery. The research suggests that properly implemented tariffs may promote global trade balance, institutional resilience, and inclusive economic modernization.

**Anantanaga, H.P.** examined the implications of trade wars—defined by tariffs, retaliatory obstacles, and protectionist measures—on global economic development. The aim is to

evaluate interruptions in trade flows, supply chains, innovation, and investment. The research utilizes secondary data to examine literature and actual trade wars, such as the U.S.–China and India–China disputes. It concludes that trade conflicts increase import expenses, diminish consumer expenditure, disturb investment choices, and induce global imbalances. Developing economies are more vulnerable. The research indicates that while some states may attain strategic advantages, trade conflicts often erode collaboration, restrict development, and harm long-term global economic stability.

**Misra, R., Choudhry, S.** examined the possible effects of the US–China trade war on India's exports, emphasizing both direct trade disruptions and indirect opportunities via trade diversion. The aim is to evaluate the impact of tariff escalations between two of the world's top economies on India's standing in global value chains (GVCs). The research employs methods such as the Vector Error Correction Model and trade similarity indexes, including the Finger–Kreinin Index, using secondary data including REER (Real Effective Exchange Rate), CPI, and product-level export information. The literature study elucidates the historical and theoretical foundations of protectionism and its ramifications on third nations, particularly those involved in global value chains (GVCs). India's backward links to Chinese and US exports are comparatively restricted, leading to little direct losses. Nevertheless, the significant similarities in exports between India and China in industries like organic chemicals, rubber, and cars presents India with short- to medium-term potential. The study indicates that India's exports in these industries are price-sensitive and may enhance competitiveness as a result of tariff increases on Chinese imports. The analysis suggests that while India may initially gain from trade redirection and improved market access, a protracted and escalated trade war may significantly disrupt global supply networks and ultimately hinder India's long-term trade and GDP development.

#### 4. Methods:

This study employs a desk research technique, focusing on a thorough and critical examination of current academic and policy-related literature to investigate the complex effects of U.S. tariff policy. The study includes a comprehensive examination of peer-reviewed scholarly publications, economic policy studies, governmental records, media coverage, and expert analyses. This analytical approach facilitates a thorough integration of theoretical ideas and empirical evidence pertinent to the economic, financial, and geopolitical aspects of tariff interventions. This structured but flexible research methodology enhances the comprehension of U.S. tariff policy, not just as a means of trade protectionism but also as a strategic instrument shaping global financial systems, policy innovation, and developmental trajectories.

#### 5. Results:

The RBI significantly altered its monetary policy stance from "neutral" to "accommodative," indicating a greater willingness to reduce rates in the future in order to stimulate a slowing economy. The Reserve Bank of India has reduced interest rates by 0.25% in response to a series of growth downgrades after Donald Trump's tariff declarations. The Reserve Bank of India (RBI) dropped repo rates from 6.25% to 6%, a second fall since February when rates were pushed down after almost five years. The repo rate is the interest rate at which the central bank extends loans to commercial banks, hence affecting borrowing expenses. The RBI has revised its growth estimates for this year from 6.7% to 6.5%. India's gross domestic product (GDP) is projected to expand by 6.5% next year.

## 6. Conclusion:

The Reserve Bank of India (RBI) shifted its monetary policy from neutral to accommodative, cut the repo rate by 0.25% from 6.25% to 6%—its second reduction since February—and lowered this year's growth forecast from 6.7% to 6.5%, with next year's GDP projected at 6.5%, all to stimulate a slowing economy amid growth downgrades following Donald Trump's tariff declarations.

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