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US Tariffs Could Cut India’s GDP by Up to 0.8%

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Morgan Stanley, a global financial services firm, has warned that if the current 50 % tariffs imposed by the United States on Indian goods remain in place for an extended period, India’s economic growth could be reduced by between 0.4 and 0.8 %. The forecast highlights growing concerns over the broader economic impact stemming from escalating trade tensions between the two nations.

According to Morgan Stanley's latest report, the continuation of these elevated tariff rates over 12 months, without offsetting policy interventions, may pose significant risks to the Indian economy. The analysis utilized input-output models developed by the firm's global team to estimate the potential impact on India's gross domestic product (GDP).

The report estimates a direct drag on GDP of approximately 60 basis points if all Indian exports are subject to the full 50 % tariff. Additionally, the indirect effects caused by inter-sectoral linkages and supply chain disruptions could double that impact, potentially leading to a total GDP reduction of up to 1.2 % in the worst-case scenario. After accounting for tariff exemptions, the net impact is forecast to be around 80 basis points.

Morgan Stanley outlines three main layers of economic disruption arising from the tariffs. The primary effect is a reduction in value-added GDP due to diminished demand for tariffed goods or broad declines in exports. The secondary impact involves disruptions to the production of intermediate goods linked to the affected exports, which may result in job losses or lower wages in related industries. Finally, a tertiary effect could emerge if weakened business confidence undermines profitability and discourages future investment in the country.

Despite these concerning projections, the report suggests that domestic policy responses or diversification of export markets could help mitigate the negative effects. "The sensitivity analysis assumes a linear impact from the external demand shock and does not factor in possible mitigating measures such as domestic policy actions or export market diversification," Morgan Stanley noted.

Indian policymakers are expected to closely monitor economic developments and may implement supportive measures to stabilize the economy should downside risks intensify.

The report also highlighted the upcoming sixth round of trade negotiations between India and the United States, scheduled for 25 August, as a critical event that could influence the future trajectory of bilateral trade relations. Morgan Stanley indicated that it would continue to watch geopolitical developments and high-frequency economic data to assess ongoing risks.

The US administration's use of tariffs has become a focal point in broader discussions about trade policy and its impact on global supply chains. The Indian government's response and the outcome of trade talks will be key to determining whether the current tariffs persist or are revised in the near term.

In summary, the Morgan Stanley report underlines the potential economic costs of prolonged US tariffs on Indian exports, but also points to possible policy interventions that could soften the blow. The evolving US-India trade relationship remains a significant factor for investors and policymakers on both sides.