Publication	Mint: Mumbai | New Delhi
Date	28.04.17
Description	Quote: Gautam Tridevi, Religare Capital Markets

Trump's tax-cut plan likely to squeeze emerging markets

BY AMI SHAH
ami.s@livemint.com

MUMBAI

US President Donald Trump's ambitious plan to cut corporate taxes in the world's largest economy would be a major boost for US companies and the dollar, but may spell bad news for emerging markets.

Trump proposed slashing tax rates for businesses to 15% from the current 35% for public corporations, and 39.6% for small businesses. Overseas corporate profits returned to the country will also be taxed at 15%.

If the proposals are legislated, US companies would go from being the most highly taxed among the Group of 20 countries to among the lowest. The plan still has to go through Congress.

"If this were to go through, the best place to invest for the next few years, would be US companies and the US dollar. The US dollar will strengthen substantially as money will be repatriated back," said Ritesh Jain, a finance expert, who has held senior positions in asset management companies.

"America will be great for investors," he added.

Jain explained that US companies would bring back money parked elsewhere to the US, and that this would hurt emerging markets, which have either dollar liabilities, or where foreign trade forms a big part of the gross domestic product (GDP).

Trump proposed slashing tax rates for businesses to 15%. AFP

"India may not be hurt as badly, but it will not be insulated," pointed Jain.

This seemed to be the consensus view. "If this goes through, emerging markets could be hurt, as flows will be diverted to the US, because tax cuts would ensure higher profitability," said Ravi Sundar Muthukrishnan, co-head of research, ICICI Securities Ltd.

US stocks, however, erased some of the gains made soon after the plan was announced, because the one-page proposal unveiled by the Trump administration lacked detailed information and there were concerns as to how the government would tackle a surge in federal deficit if the plan were to be enacted.

There is also a minority contrarian theory that emerging markets would actually benefit from the proposed tax cuts.

More money in the hands of US firms, would lead to more investments in emerging markets, which carry huge growth potential, this theory argues.

"It would mean that American firms will have more money, and emerging markets could be beneficiaries because of increased FDI (foreign direct investment) and FII (foreign institutional investors) investments," said Gautam Trivedi, chief executive at Religare Capital Markets Ltd

"It is a positive reform, if it does go through."

Asian shares eased from a near two-year high on Thursday as the tax-cut plan failed to inspire investors, though sentiment remained supported by global growth prospects. Indian shares also retreated from record highs on Thursday and the benchmark Sensex shed 0.34%, as investors locked in gains.

Reuters contributed to this story