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Premium

# Trade diplomacy: Govt depts red-flag high duties to curb China imports, seek nuance in strategy

A section within the government is using tariffs as a diplomatic tool, favouring the gains of India's manufacturing-focused Production-Linked Incentive (PLI) k



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Tariffs up last 8 yrs; Commerce Ministry denies protectionism

**MULTIPLE WINGS IN the government have started to red-flag the Centre's moves to progressively hike customs duties, especially the more recent offensive targeted at imports of Chinese components and inputs. A section within the government is in favour of a more nuanced approach in using tariffs as a diplomatic tool, fearing which there is a possibility of the gains of India's manufacturing-focused thrust that include schemes such as Production-Linked Incentive (PLI) being squandered away.**

**What cannot be missed is that China still accounts for 14 per cent of India's imports with not just inputs for the domestic industry in sectors ranging from electronics to pharmaceuticals and textiles to leather, but**

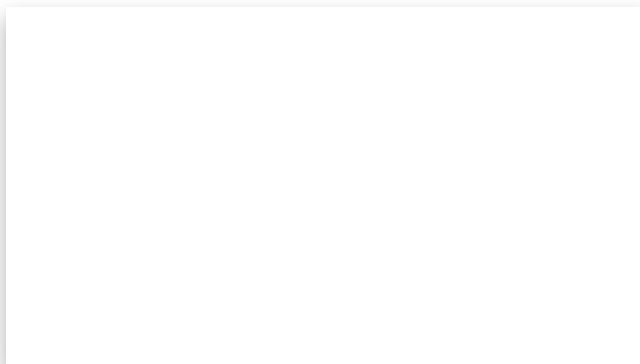
China. This, coupled with the fact that average... per cent in 2022 from 13 per cent eight years ago... uncompetitive vis-a-vis countries such as Vietnam...

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In fact, much of the protests from ministries have come after the industry warned of the detrimental impact of higher tariffs being used as a protectionism tool. The blockade targeting Chinese imports, which gained traction across Central ministries and departments in the aftermath of the Galwan border clash since 2020, is now seen to be impacting sectors such as electronics and pharmaceuticals. The roadblocks to imports in these sectors is leading to either a loss of domestic output or simply a loss of competitive advantage for Indian manufacturing.

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After lobby groups representing [Apple](#) Inc. and other cell phone manufacturers said India's high tariffs pose a disincentive to de-risking supply chains beyond China. As a result, countries such as Vietnam, Thailand and Mexico are offering lower tariffs on components to grab the space vacated by China.



## TOP ITEMS IMPORTED FROM CHINA IN FY23

Category	Amount (\$ bn)
Engineering goods	30.34
Electronic goods	30.21
Chemicals and related products	20.08
Non-electrical machinery	11.7
Industrial machinery	6.2
Medicinal & pharmaceutical products	3.4
Artificial resins, plastic materials etc.	5.2

Source: Centre for Monitoring Indian Economy (CMIE)

Earlier this year, the Ministry of Electronics and Information Technology (MeitY) relayed concerns about high production cost due to high tariffs to the Finance Ministry. MeitY had pushed for a lowering of duties of about 20 per cent on parts including circuit boards, chargers and fully assembled phones, by at least 5 percentage points. This was partly agreed to and the government reduced duty on several IT goods ahead of the [Interim Budget 2024](#).

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Moreover, to check cheap quality imports for Control Orders (QCOs) that restrict MSMEs

### EXPLAINED

#### Why India Inc wants lower duty

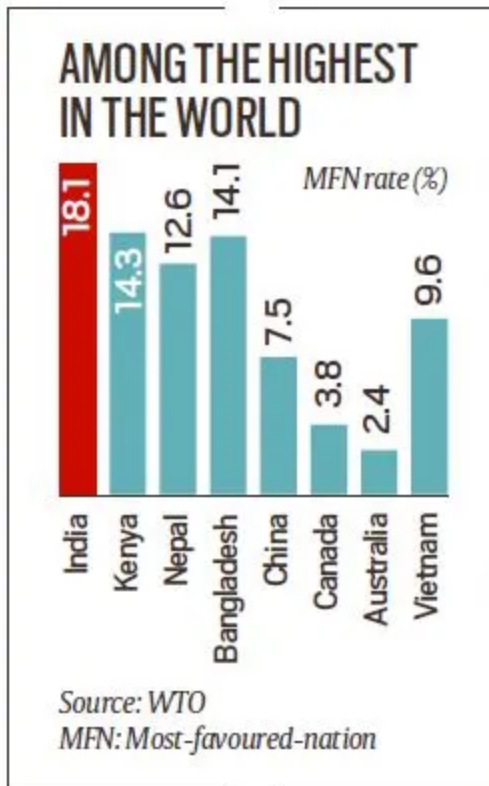
WHILE India Inc has mostly been at the forefront of pushing for protectionist measures including tariff and non-tariff barriers, it is the industry itself which wants the government to reduce duties on imports of capital goods and key inputs across sectors.

“Globally there is no country where tariffs are so high (as in India). Our tariffs are higher than countries in South East Asia and even Africa. If one were to impose tariffs for a security reason, it is different. (For that) there are safeguard measures of the Directorate General of Trade Remedies (DGTR). We are currently negotiating FTAs with developed countries which have maximum tariffs at 60 per cent... that too on products such as tobacco. Our highest tariffs go up to 150 per cent. Of course, we are different from developed nations and we need to reduce tariffs in a calibrated manner. Commerce will have to work on it,” a government official involved in the tariff negotiations said on condition of anonymity.

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“All imports are not bad. Our economy will not grow if we start blocking imports. When Galwan (conflict) happened, there was no official order but all imports from China were stuck. This resulted in our own offices being filled with requests from domestic industry including textiles and leather. China. They missed (export) orders and faced nationalism. It only brings inefficiency. You cannot give protection till eternity,” the





India accounts for negligible share in China's total trade, but significantly depends on Chinese imports in key sectors including pharmaceuticals and electronics.

Official data shows that **India is home to barely 3 per cent of Chinese exports. But China is one of India's biggest import sources, making up for 14 per cent of India's total imports, especially with regard to intermediate goods and capital goods. This dependency has left India vulnerable to supply chain disruption.**

“If you look at the trade data in the last 10 years... we have not gained in our FTAs with Korea and Japan. Our textile and leather industry sought access in Japan and Korea but they gained more and our exports remained flat. **So, from the perspective of development economics, it makes sense to gradually decrease duties and integrate better with global markets and then negotiate FTAs,**” a second government official said on condition of anonymity.

An internal study by industry lobby group Association (ICEA) that analysed input tariffs on Thailand, Vietnam, Mexico and India — has shown that high duties on inputs in the electronic segment. The high duties hurt India's competitiveness and that the industry is se

Vietnam, which offers lower tariffs for about 98 per cent tariff lines compared with India, while Thailand offers lower tariffs for over 90 per cent of goods.

An industry player from the electrical industry talked of the futility of slapping import duties on items where India has a natural advantage, including aluminium, polymers and petrochemicals. While industry does not need higher duty as a safeguard, the imposition of tariff walls lead domestic producers to hike prices to the extent of the duty, thereby impacting overall competitiveness of the industry.

Also, these hikes in import duties render India's exports uncompetitive, given that a significant portion of exports are import-intensive. More importantly, trade barriers end up promoting inefficiencies in domestic manufacturing, at the cost of hurting consumers.

Tariff hikes have been undertaken by the NDA government multiple times covering well over 500 major item categories since 2016, marking a "calibrated departure" from the policy of reducing import duty that has been followed by successive governments over the last two decades.

The Ministry of Commerce denies these duty increases are "protectionist" in nature. An official said India's stance on hiking tariffs mirrored the broader trend globally, and that New Delhi had shown a renewed interest in signing bilateral Free Trade Agreements (FTAs) over the last 24 months.

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While both statements have an element of well before the largely post-pandemic mood kicked in. Also, while India is currently neg

trade deals, it has chosen to stay out of important mega regional trading arrangements, including the Regional Comprehensive Economic Partnership (RCEP).

Analysts caution that in some cases where customs duty hikes have been proposed, duties are close to or have effectively crossed the WTO-mandated “bound rates”. These are the customs duty rates that a country commits to all other members under the MFN principle, and breaching these rates could effectively put a country at risk of being branded as “protectionist” as per WTO norms that prohibit discrimination by use of tariffs by its 164 members

There is also a clash between two contrasting viewpoints within the government – of India’s domestic market being a bargaining chip and high tariff walls forcing foreign companies to manufacture here to take advantage of India’s market size, as against the other point of view that domestic cost competitiveness is important for export competitiveness and that can only happen with lower tariffs.

Some of the tariff hikes initiated over the last two years have come despite protests from the industry and even within sections of the government itself. In February 2020, Indian toy traders, retailers, wholesalers, and manufacturers came together to form an umbrella body, the All India Toys Federation, to protest the hike of import duty on toys in that year’s budget. Earlier too, the withdrawal of concessional customs duties on 76 specified drugs in January 2016 had to be partly withdrawn after the Ministry of Health cited an adverse impact on the prices and availability of these drugs. The implementation of the duty hike on solar panels from September 2017 was opposed by both the New and Renewable Energy Ministry and solar project developers. The withdrawal of the exemption from basic customs duty on ‘cashew nuts in shell’ in Budget 2016-17 resulted in representations from various trade and industry associations seeking withdrawal of the imposition of the duty of 5 per cent on cashew nuts in shell.

The official argument is that these calibrated duties are necessary to “protect the domestic industry in capacity creation”, “protect the raw material supply side constraints” and



But analysts who counter this view say that the nearly eight years of protectionism have not pushed up the share of manufacturing in India’s GDP — levels of around 15 per cent have been steady for well over a decade, despite multiple sops that include unprecedented tax breaks.

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