Lowering Import duty

What is the issue?

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There has been a strong case for lowering of import duties in India, which has to be followed with elaborate product standards and non-tariff measures.

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What are the advantages of lowering duties?

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- **Increase exports** - India's overall share in world goods trade is only 1.7%.
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- Import duties and time taken at the port/Customs is the major reason for a low share of Indian exports in global value chains.
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- Since the complex production process requires goods to cross borders several times at different stages, any duty charged has a cascading and accumulative effect on trade.
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- Thus, a reduction in import duty and quick clearances at the port/Customs will improve the situation and help Indian exports.
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- **Improve ease of doing business** - For industrial goods, India's average rate of import duty is 10.2% while the weighted average import duty is only 5.7%.
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- The significant difference in the two numbers is because some of the key imports attract low duty and large value of imports are allowed end-use specific exemptions.
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- Lower duties will do away with the need for grant of many exemptions which make implementation complex.
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- This will also avoid smuggling, evasion, litigation, and corruption which are the consequence of higher duties.
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- **Reduce the need for export schemes** - Many exporters use duty exemption schemes to import inputs and machinery needed for making an export product at zero duty.
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- Low import duties will reduce the need for such export schemes.
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- Duty Drawback is the rebate of duty chargeable on imported material or excisable material used in the manufacturing of goods that are to be exported.
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- The exporter may claim drawback or refund of excise and customs duties paid by his suppliers.
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- Lower import duties will reduce the government spending under the duty drawback scheme.
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- Further, over-invoicing of exports will be avoided since there will be less possibilities of duty drawback from the government.
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What should be done?

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- **Robust trade policy regime** – High tariffs are usually levied by domestic governments to protect new industries against foreign competition.
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- India generally levy high tariffs on imported goods, making domestic goods cheaper for domestic consumers and imported goods more expensive.
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- However, once a Free Trade Agreement (FTA) is signed with a country, imported goods will become cheaper than the domestic goods.
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- As a result, their firms gain more price advantage in India from an FTA agreement.
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- Thus, reform of Customs duty regime in India is needed to avoid the impacts of FTA on domestic industries.
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- **Differential tariffs** - The top 50% imports in value are concentrated in only

25 lines relating to crude oil, gold, diamonds, mobile phones, telecom products, etc. which are mostly low-duty products.
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- India collects more than 85% of basic customs duty from less than 10% of tariff lines.
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- Thus, India can identify 15% of industrial tariff lines as strategic and retain the current level of duty on them.
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- On the other hand, duties on raw materials and intermediate goods that will go on to make an industrial product can be reduced.
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- **Non-tariff barriers** - India have to switch to the usage of non-tariff barriers such as product standards to control unwanted imports.
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- Lower duty regime works best in tandem with elaborate standards and non-tariff measures regime.
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- Thus, there is a need to set up quality and standard infrastructure to ensure that the duty reduction measures will be accompanied by importing high quality imports, without violating our commitments at the WTO.
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Source: Business Line

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