Syllabus subtopic: Indian Economy and issues relating to Planning, Mobilization of Resources, Growth, Development and Employment.

Prelims and Mains focus: about import tariff regime in India; amended proposed to it and its implications

News: Some of the budget proposals have the potential to revive the import substitution regime of the pre-1991 liberalization era. The old regime, which sought to protect domestic industries, bred an uncompetitive manufacturing sector. Mint explains the pitfalls of protectionism.

Tariffs in India vis-a-vis other countries

At 11.7%, India’s weighted average tariff is much higher than that of South Korea, the US and Japan. India was also way behind these countries in terms of machinery and transport equipment exports.

How are import tariffs expected to change?

- The 2020 Union budget proposes to increase customs duties on imports of a variety of items. While one set of duty changes seeks to create a level playing field for micro small and medium enterprises, another is for promoting Make In India.

- In addition, the Customs Tariff Act, 1975, is proposed to be amended by way of the Finance Bill to give the government the power to impose safeguard duties and tariff rate quota on imports on the pretext of threat of injury to domestic industry. Customs duty exemptions are also being withdrawn from 80 items that were found to be outdated.

Will duty hikes push up domestic prices?

- Yes. Import substitution forces consumers to pay more for competitively produced imports, so that small producers, which will never become
competitive, get protection. Prices will rise for porcelain or china kitchenware, padlocks, brooms, hand sieves, combs, vacuum flasks and appliances such as wall fans, grinders/mixers, water heaters, ovens, toasters, coffee/tea makers, insect repellents, footwear, mattresses, dolls and toys, compressors of refrigerators and ACs, furniture and stationery.

- Prices will also rise where customs exemptions have been withdrawn such as for skimmed milk.

**Will there be unintended consequences?**

Yes. Empowering government officials to take decisions on individual items raises the scope for corruption and policy errors. The outdated items on which customs duty has been withdrawn includes CD writers, MP3/MP4/MPEG 4 players, pre-recorded and audio cassettes. This also affects cassettes used by blind students and CDs used for educational purposes.

**Will officials get more power and control?**

- Yes. Like in the 1980s when bureaucrats exercised powers to decide duties on individual items, scope for concentration and abuse of economic controls has risen.

- The budget proposes to introduce a new provision in the Customs Act, 1962, so that the Centre will have the power to prohibit import and export of any item. At present, it has this power only for gold and silver. Instead, it needs to return to the strategy of lower, simplified and predictable tariffs to improve the ability of exporters to link up with evolving global value chains.

**Will the economy turn more competitive?**

- No. Being a global player and sustaining high growth demand a higher share of exports in global value chains. The report of the high-level advisory group found that with value chains, exports and imports build competitiveness.

- India’s tariff reduction in the post-reforms period led to simple, average tariffs in 2015-16 being only about a tenth of the level in 1990-91. Exports
soared over 17 times from $18.1 billion in 1990-91 to $309 billion in 2014-15.