Budget 2018 - Customs Duty

Why in news?

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The recent budget proposed an increase in customs duty on a range of products, particularly in the labour-intensive sectors.

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What is the rationale?

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- **GST** - Addressing GST and the associated hurdles in the manufacturing sector is one of the reasons for the tariff move.
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- **Imports** - More importantly, it is to discourage imports, mostly from China and other Asian countries.
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- Some items in tariffs increases are certainly due to the threat of flooding of cheap Chinese goods, affecting India’s small industries.
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- This includes mobile phones (15 to 20%), adapters and phone chargers (nil to 10%), silk fabrics (10 to 20%), etc.
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- **Job Loss** - The move is also an effort to address the crisis over jobs lost due to Free Trade Agreement-related imports over time.
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- The draft industrial policy 2017 finds mention in this context.
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- The policy observes that a “duty structure that favours import of final products can act as disincentives for domestic manufacturers”.
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What would the impact be?

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- The tariff measure is expected to boost local manufacturing and incentivize domestic value addition.
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- The move, in particular, will facilitate and take forward the Make in India programme.
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- This, in turn, is expected to promote creation of more jobs in the country.
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- The job opportunities in turn will benefit the youth and contribute towards the overall growth of the economy.
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What are the possible challenges?

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- India could be dragged to WTO over the recent tariff increases.
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- The imposition of higher duties on electronics goods, including phones, goes against WTO's Information Technology Agreement.
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- Under this 1996 agreement, India is required to eliminate tariffs on some electronics goods and IT products, including mobile phones.
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- However, India maintains that IT and telecom technologies have evolved with new applications and equipment.
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- These were neither existent nor even conceived at the time of signing the ITA-I in December 1996.
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- Also, India is not undertaking any fresh commitments under ITA-2 agreement that came into force more than two years ago.
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What is the way forward?

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- India's recent move seems to be reflecting the protectionist climate prevailing world over.
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- Investment in physical and social infrastructure would be better options than

protectionism.
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- The way out is to promote industry through setting up industrial zones which will reduce the logistics costs.
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Source: Business Line

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