Hike in Import Duty

Why in news?

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The government raised import duties on 19 non-essential items recently.

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Why it was done?

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- It is aimed at bridging current account deficit (CAD) in order to save Indian rupee from the incessant fall it has seen in the recent past.
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- The **CAD widened to 2.4%** of the GDP in the first quarter of 2018-19.
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- The total value of imports of 19 non-essential items in the year 2017-18 was about Rs 86,000 crore.
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- Hence, basic customs duties have been raised on these 19 tariff lines by 2.5-10%.
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- This will hike the prices of those imported goods, dampens the domestic demand, lowers the imports and helps local manufacturers.
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- The increased duty is likely to yield about Rs 4,000 crore in revenue.
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What could be the effects?

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- The Centre’s stated objective of narrowing the CAD cannot have a bigger impact only with this measure.
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- Though the items import values stood out at 86,000 crores, it constitute less than 3% of total merchandise import bill in 2017-18.

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- The first six months of the current fiscal have already been elapsed.
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- Thus containing the CAD through this tariff increase is going to be short-term and marginal.
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- The decision to double import duties on a clutch of consumer durables to 20% could **dampen consumption** of these products.
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- Thisis especially coming at a time when the rupee's slide against the dollar is already likely to have made these goods costlier.
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- Since higher duties triggers higher prices, it might end up altering consumption behaviour towards this category of imported merchandise.
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- The government should also be in a position to foster greater investment in the domestic production of some of these goods.
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- The tariff on aviation turbine fuel may add to the existing stress of domestic airline operators, wherein the rupee and rising oil prices have already affected their working capital.
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What should be done?

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- **Exports** - A more robust approach would be measures to boost exports and simultaneously reduce the import-intensity of the economy.
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- Policymakers must renew efforts to ensure that export growth starts outpacing the expansion in merchandise imports.
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- Imports of IT and electronics goods are also rising that affects our balance of payments and hence import substitution measures must also focus on sectors, other than just oil.
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- **Domestic supply chain** - Delay in getting GST refunds affects smaller exporters, where they have been badly hit by working capital shortfalls.
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- Expediting the **refunds on GST** to them could help in the establishment of domestic labour-intensive supply chains in India.
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- It could also attract sectors like textiles and leather that are moving out of China to countries such as Vietnam and Bangladesh.
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- This could avoid levying import tariffs imposed at the rate of 25% on Imported footwear with the recent hike.
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- **Imports** - Despite the abundance of coal reserves, thermal coal is one of India’s fastest-growing imports.
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- This is a consequence of under-investment in modernising the entire coal production and utilisation chain and must be addressed expeditiously.
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- Ensuring faster permissions for mining companies as well as a more attractive fiscal regime could re-vitalise this sector.
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- **Rate hike** - It was suggested that the policy rates be raised to stabilise the rupee.
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- But, it will certainly hit portfolio flows and the debt flows since every rate hike results in capital losses for them.
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- **Bonds** - The idea of floating NRI bonds to shore up dollar inflows will help to strengthen the rupee.
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- **Gold** accounts for 10% of the quarter's trade deficit.
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- Thus, improving the gold bond scheme by making it more liquid could also reduce the imports of gold.
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- **Global factors** - Global crude oil prices are showing no signs of reversing their upward trajectory in recent times.
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- Also, the sanctions on Iran and the possible US pressure might force India to look for other suppliers for crude oil, making it necessary to ensure a reliable supply chain.
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- Given all these factors, the government will need to address structural imbalances that will prevent the CAD from widening close to or exceeding the 3% of GDP level.
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Source: The Hindu, Financial Express

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