India’s Action on Import Duty

Why in news?

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What is India’s plan on Import duty?

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- India has increased import duty on 19 products such as diamonds, shoes, ACs, and refrigerators.
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- These products cover $12 billion or close to 2.6 per cent of India’s annual imports.
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- The reason is US-China trade war has increased the wedge, many countries, including India, are actively considering such measures.
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- Free imports allow a growing economy to expand production quickly thus to address the concerns India has hiked its tariffs on import duties.
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Where does other nations stand at this regard?

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- The US, the EU and most other developed countries charge high import duty on products of interest to developing countries and grant calibrated access only.
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- The EU and the US charge 10-20 per cent import duty on Indian apparel and shoes.
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- Japan charges 300 per cent duty on rice, Many European countries charge

seasonal import duties on agriculture products.
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- Total import duty on some types of steel in the US and EU now exceeds 100 per cent.
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- South Korea is an excellent example of export-led development, but in most sectors it imposes high import duties and non-tariff barriers.
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What are the concerns on India's measure on imports?

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- Economists argue that governments should refrain from regulating trade flows.
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- Free imports would boost the purchasing power of consumers by allowing them to buy high-quality goods at low price.
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- If trade flow is unhindered, the law of comparative advantage takes over, forcing countries to specialise and trade in few products in which they have some competitive advantage.
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- This benefits consumers and producers of both exporting and importing countries.
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Why India has chosen such measure?

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- China has repeatedly proved that comparative advantage, in most cases, can be developed in a short period through a sprinkling of incentives.
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- The trade war is all about increasing import duties. The US is fast approaching a point where it would impose extra 25 per cent import duty on all goods coming from China and, China is mechanically retaliating by doing the same.
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- China accounts for more than 95 per cent of imports of India for these items: blankets, bed linen, artificial flowers, kitchenware, baby carriages, clock

movements, tricycles, festival items, combs, vacuum flasks, candles, etc.
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- India’s dependence on China for these products was less than 10 per cent in 2005, these are low technology, labour-intensive products that can be manufactured locally.
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What measures needs to be considered?

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- India follows an open trade policy where most products can be imported without prior permission on payment of import duty.
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- India could reduce its dependence on imported medicine and emerge as the world’s leading generics supplier because of not recognising product patents for a few years.
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- Today, low priced and high-quality cars and medicines from India find a ready market the world over.
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- Trade should largely be free from regulation and India need to work on active measures on import substitutes.
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Source: Business Line

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