Protectionist Tariff Amendments by India

What is the issue?

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- Union government had made few tariff amendments which are considered to be protectionist in nature.
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- Government need to step in to resolve the concerns of the manufacturing sector in this regard.
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What are the significant protectionist moves of government?

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- Customs duty on luxury/lifestyle goods such as perfumes, silk fabrics, precious stones, imitation jewellery and products related to beauty treatment has been increased.
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- Customs duty on raw materials such as crude and refined edible oils, fruit juices and soya preparations has also been increased.
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- The customs duties on refractory goods consumed by the domestic iron and steel companies has been increased and it is imperative to weigh the overall impact of this change.
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- There is also an increase in customs duty on automobile parts and LCD/LED/OLED.
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What is the significance of this moves?

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- Rejig in the custom duty structure can be seen as a fine balancing act

between fiscal deficit and fiscal prudence and as an overarching design to boost revenues.
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- A custom duty increase on luxury goods sector is expected to boost the domestic manufacturing of such goods and to provide an additional source of revenue to the government.
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- The duty increase in agro raw materials will give an impetus to the domestic food processing industry and agricultural suppliers to these industries.
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- The custom duty increase on raw materials for manufacturing sector seems to boost many domestic sector.
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What are the concerns of these move?

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- It remains to be seen whether these tariff amendments have a certain degree of permanence or whether they are introduced to achieve short-term goals.
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- India’s move on increasing import duties has taken without exploring the manufacturing possibility, since it might not be economically viable for a foreign investor considering the scale of operations.
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- It is hoped that importing completely built-up units will not become the preferred option for Indian as well as foreign companies, leading to job losses locally.
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- The precipitous overnight increase of rates will merely inflate prices of such goods owing to prohibitive cost of imported materials.
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- A spur in construction and infrastructure projects and increased requirements for iron and steel is expected to increase demand of inputs for manufacture of refractories.
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- There are concerns about the capability of domestic industry to fulfil the demand for such goods at an adequate pace to substitute imports.
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What measures need to be taken?

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- The government needs to provide long-term and very competitive export incentives to companiesthat will provide economies of scale.
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- At the same time it will be viable for them to set up expensive manufacturing facilities for components such as LCD/LED/OLED panels or auto parts.
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- Each category of goods must be looked at independently to assess the impact after duly factoring in all commercial considerations for the industry.
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- If the government has a subsequent tariff reduction plan on manufacturing raw materials then such a plan should be promulgated in advance so that the domestic industry can set the right expectations and prepare accordingly.
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- For which a consultative approach in decision making involving both domestic and foreign companies is needed.
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- Thus government must understands that the “Make in India”campaign can succeed only when a conscious effort is made to customise the policy decisions after duly considering all concerns.
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Source: Business Standard

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