

Rising Gold Imports

What is the issue?

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- India's gold imports in the first four months of this fiscal have doubled in value from the year-ago period.

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- This has contributed to a threefold expansion in the merchandise trade deficit.

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- Given the role of gold imports in trade imbalances, it calls for deeper analysis and vigilance.

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What are the reasons?

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- Earlier in the year, fears of high tariffs under GST led to the gold trade stockpiling material.

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- Later, gold imports spiked as a result of a tariff loophole that allowed zero-duty imports from South Korea.

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- Pre-GST, the government curbed certain previously waived custom duties (under free trade pacts such as with South Korea) by a countervailing duty (CVD).

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- Post- GST, as CVD got subsumed by it, gold imports from these regimes suddenly turned cheaper, resulting this route being used for round-tripping.

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- Both these onetime and existing structural factors have contributed to the recent surge in gold imports.

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What is the way forward?

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- To address round-tripping, centre should consider measures such as a safeguard duty or minimum value-addition norms for exports.

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- Policy intervention is essential to curb opportunistic imports of gold.

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- However, Centre should refrain from hasty measures to suppress genuine consumption demand for gold.

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- This is because, unlike in the past, demand for gold is likely to be more consumption oriented than an investment one.

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- Also, given the formalisation of the jewellery industry after demonetisation and GST, only a business-as-usual approach can work in favour of the economy at present.

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Source: BusinessLine

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