

The Drawbacks of Increasing Import Duty

Why in news?

\n\n

Central Board of Excise and Customs, has recently notified a customs duty hike ranging 5 to 10% on a range of goods like mobiles, cameras, ovens etc.

\n\n

What was the reason?

\n\n

\n

- The government reasoned that this would help in boosting local production, reducing import bills and creating jobs in the country.

\n

- Notably, India imported nearly \$42 billion worth of telecom instruments, computer hardware and other consumer electronics in 2016-17.

\n

- The domestic industry sees this as a fillip to the government's "Make in India" initiative.

\n

- Hiking of Customs duty will also boost tax collections at a time when there is uncertainty over revenue from the GST.

\n

\n\n

Can local manufacturing really be boosted?

\n\n

\n

- It is now recognized worldwide that raising import duties is effective only as an anti-dumping measure against another country.

\n

- Imposition of such duties should be done rarely and it must ensure a balance between the interests of the consumers and that of the local manufacturers.

\n

- For turning a country's domestic industry globally competitive, import duties aren't considered a desired tool due to its many drawbacks.

- \n
- Many companies do not want to manufacture in India as they still find it difficult to do business here - this should to be addressed first.
- \n
- Rather than increasing duties, the government needs to sort out the problems companies face in terms of land acquisition, infrastructure, and labour laws.
- \n

\n\n

What are the drawbacks?

\n\n

- \n
- Duty reduction in one sector will trigger hectic lobbying by manufacturers in other industry segments to push for similar protection from imports.
- \n
- **For Consumers** - Import tariffs would reduce competitiveness of the economy and might force the consumers to settle for inferior products.
- \n
- The protection provided by higher duties is also likely to reward continued inefficiency of local manufacturers, thereby making goods costlier.
- \n
- **For the Economy** - A protected environment would price out companies that spend on research and development and dis-incentivise innovation.
- \n
- This could potentially harm the entire ecosystem and also bring down the export potential of the country.
- \n

\n\n

What will be the international ramifications?

\n\n

- \n
- The increase in Customs duties has already been termed by competing countries as a violation of World Trade Organisation (WTO) norms.
- \n
- While India has resorted to these hikes using emergency powers in its Customs laws, it will be difficult to convince players like Japan, EU & US on its veracity.
- \n
- Consequently, India's credibility as a trading partner might come under strain and thereby make external markets less friendly to Indian exports.

\n

\n\n

\n\n

Source: Business Standard

\n

