The Drawbacks of Increasing Import Duty

Why in news?

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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**.**

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What was the reason?

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- The government reasoned that this would help in boosting local production, reducing import bills and creating jobs in the country.
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- Notably, India imported nearly $42 billion worth of telecom instruments, computer hardware and other consumer electronics in 2016-17.
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- The domestic industry sees this as a fillip to the government's "Make in India" initiative.
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- Hiking of Customs duty will also boost tax collections at a time when there is uncertainty over revenue from the GST.
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Can local manufacturing really be boosted?

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- It is now recognized worldwide that raising import duties is effective only as an anti-dumping measure against another country.
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- 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.
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- For turning a country's domestic industry globally competitive, import duties aren't considered a desired tool due to its many drawbacks.

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- 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.
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- Rather than increasing duties, the government needs to sort out the problems companies face in terms of land acquisition, infrastructure, and labour laws.
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What are the drawbacks?

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

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- The increase in Customs duties has already been termed by competing countries as a violation of World Trade Organisation (WTO) norms.
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- 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.
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- Consequently, India’s credibility as a trading partner might come under strain and thereby make external markets less friendly to Indian exports.

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Source: Business Standard

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