Import tariffs rise again in 2021 on renewed push for local manufacturing

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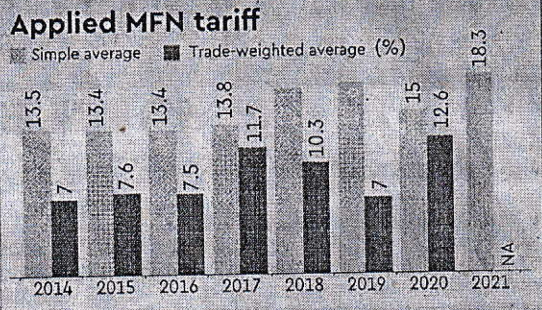

India's permissible tariff limit (average bound rate) under the WTO was as high as **50.8%** in 2021

Sources: WTO

REVERSING A SLIDE witnessed in 2020, India's average applied import tariff rose to 18.3% in 2021 from 15% in the previous year. This reflects a return of duty hikes that had marked India's push for import substitution through self-reliance at a time when key economies, especially the US and China, have exhibited protectionist tendencies.

Similarly, after a second straight year of fall through 2019, India's trade-weighted average tariff — total customs revenue as a percentage of overall import value — also rose to 12.6% in 2020 from 7% in the previous year, according to the latest data sourced from the World Trade Organization (WTO). To be sure, India's average applied tariff is still well below the bound rate of 50.8% — the level approved for it by the WTO.

Given that the government has, in recent months, raised imports duties on a range of products, including gold, umbrellas, headphones and earphones and smart meters — this year, the applied tariff is expected to remain elevated in 2022 as well on a net basis, factoring in duty cuts on a number of other products, said analysts.

India's import tariff (simple average), which stood at 13.5% in 2014, started rising from 2017 and hit 17.6% by 2019. It dropped sharply to 15% in 2020 before rising again in 2021 in response to a series of duty hikes (in sectors like electronics, automobiles and agriculture) to contain a current account deficit and promote local manufacturing.

India's tariff increase distinguishes it from other key economies that have been resorting to trade "protectionism by stealth" by erecting huge non-tariff barriers to discourage imports that they deem undesirable or non-essential. However, since these economies (mainly advanced nations such as the US and the EU, and some developing ones like China and South Korea) usually keep their tariffs low, they manage to mask their trade protectionism better than India.

While the applied tariff (simple average) on farm products rose to 39.2% in 2021 from 34% in the previous year, industrial tariff inched up to 14.9% from 11.9%, showed the latest data. Similarly, based on trade-weighted average, tariff on farm items jumped to 63.3% in 2020 from 32.5% in 2019, while industrial tariff rose to 9.4% from 5.8%. These tariffs are meant for imports from countries to which India has accorded the most-favoured nation (MFN) status, in accordance with the WTO norms.

Following a surge in its crude oil import bill in 2018, New Delhi had targeted "non-essential imports" to curb pressure on its current account. It again resorted to increases in customs duties on scores of products in 2019 and in 2021 to prepare the way for its Aatmanirbhar initiative amid a trade war between the US and China and also Beijing's unreliability as a supplier in the wake of the Covid outbreak.

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The tariff increase is also aimed at targeting the dumping of low-grade items through the tariff route (China has been the biggest supplier of sub-standard products to India). A sustained drop in imports will also help the country lower its trade imbalance, which, some officials reckon, will not just ease pressure on its current account but boost its GDP growth as well.

Economists, however, have been critical of New Delhi's move to undermine liberalisation, achieved assiduously over the years since the 1990s.

Former vice-chairman of Niti Aayog Arvind Panagariya has already cautioned that the duty hikes can be counter-productive. No major economy has grown 8-10% without opening up its market and India needs to bring down its industrial tariff to at most 10%, he has argued.

In a paper with Shoumitro Chatterjee in 2020, former chief economic advisor Arvind Subramanian said India was turning inward. "Domestic demand is assuming primacy over export-orientation and trade restrictions are increasing, reversing a three-decade trend," the paper said. India still enjoys large export opportunities, especially in labour-intensive sectors such as clothing and footwear.

"But exploiting these opportunities requires more openness and more global integration," the paper argued.

Analysts have also pointed out duty hikes have been mostly unsuccessful in containing imports, especially from China.

Domestic industry, meanwhile, clamours for more protection, arguing that in the absence of credible structural reforms to bring down its costs (including costs of logistics, wage, electricity and credit) and provide it a level-playing field, allowing increased foreign competition is patently unfair. Reforms to boost competitiveness of the economy haven't been undertaken since liberalisation as they should have, it stresses. Bolstering competitiveness not just enables a country to improve its exports but also reduce costly imports.

As pointed out in a 2016 report by HSBC, India's domestic bottlenecks explain 50% of the slowdown in overall exports (remaining the biggest threat to its outbound shipments), followed by world growth (33%) and the exchange rate (just 17%).