

Tariffs on mobile parts hit localisation plans

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High tariffs on key sub-assemblies and components that go into the making of mobile phones in India have not only impacted localisation, but have also neutralised the benefit of incentives under the production-linked incentive (PLI) scheme, thereby making India less competitive with respect to countries like China and Vietnam in the mobile export sweepstakes.

According to a comparative study of import tariffs and their impact on mobile exports by the Indian Cellular and Electronics Association (ICEA), the current tariffs put India at a cost disadvantage of 8-10 per cent of the bill of material and 5-7 per cent of the total cost of a mobile device, thus outweighing the benefit of the PLI scheme (4-6 per cent).

The high tariffs have also not helped in pushing localisation, an important goal of the government under the scheme where the aim is to reach 40 per cent value addition by FY27.

Currently, 54 per cent of the components and sub-assemblies used for making a mobile phone have an import tariff of between 10

and 25 per cent. In contrast, in China 60 per cent of the components are imported at 5 per cent duty or below with no tariff imposed above 10 per cent.

Again, India's average Most favoured Nation (MFN) tariff at 8.5 per cent is much higher than China's at 3.7 per cent. And Vietnam's Free Trade Agreement (FTA) weighted average tariff is at 0.7 per cent, compared to 6.8 per cent in the case of India.

According to the study, in key areas like display assembly and camera modules (which collectively account for 23.5 per cent of the bill of material of a phone), the localisation in India is at 25 per cent for both, compared to 75 per cent

and 95 per cent localisation respectively in China. The tariffs imposed on these components in India have gone up by 11 percentage points between 2016 and 2021.

In mechanics Indian assemblers are at only 20 per cent localisation while in die-cut parts it is pegged at 15 per cent (they account for 7-8 per cent of a mobile phone's bill of material). China, though, has already achieved 100 per cent localisation in both these sub-assemblies, the study points out.

The import tariffs in these two products in India have gone up by 6.2 percentage points in the same period. In addition, the duty on inputs which go into the making of mechanics, is at 15 per cent. Also,

most sub-assemblies like memory and storage, passive and active components (resistors, capacitors etc) are entirely imported, unlike China, where these are in the process of localisation.

Currently, Indian mobile phones under the PLI scheme have a value addition of less than 20 per cent (12-15 per cent in the case of Apple Inc), but the government's aim has been to hit 40 per cent by FY27, which is the level at which China is currently.

The ICEA has urged the government to focus the localisation policy on building scale which will come mostly from exports rather than from imposing high tariffs which turn out to be counterproductive.



LOCALISATION LEVEL

Item	India	China	% share in cost
Camera module	25	95	10
Display assembly	25	75	13.5
Mechanics	20	100	8
Battery pack	95	100	6
Connectors	5	100	1.5

Source: ICEA