Impact of customs duty hike on manufacturing and the way forward – A review

The Union Government has made several changes in the customs duty structure for various products to promote local value addition, correct inverted duty structure and enhance exports. This article reviews the key changes in customs duty structure and the way forward to promote India's foreign trade.

Metal products

In order to reduce price of metal products, which are used as raw materials by local manufacturers, the government reduced customs duty on semis, flat and long products of non-alloy, alloy and stainless steel. The government also encouraged import of steel scrap and copper scrap by relaxing customs duties on these products to reduce import cost for metal recyclers.

However, manufacturers of stainless steel fear that the revocation of countervailing duty on certail stainless steel flat products will adversely impact local production by encouraging imports from China and Indonesia.

Textile and leather

The government hiked import duty on raw silk to discourage import of the same from China and protect local silk cocoon farmers and raw silk reelers. The Union Budget 2021-22 hiked customs duty on raw silk, silk yarn, and yarn spun from silk waste from 10% to 15%. Reports suggest that Indian sericulture farmers faced competition from cheap import of raw silk and related products from China after India reduced duty on these products from 30% to 5% decades ago. In order to protect local producers of silk from foreign competition, the government had earlier increased customs duty on this product to 10% and now in the current budget it has been further hiked to 15%.

However, manufacturers of silk fabrics and garments complain that the hike in duty will increase their cost of raw materials as they depend on imports of high grade silk for producing export quality silk fabrics.

Similarly, textile producers have opposed the government's move to hike duty on imported cotton and cotton waste, which is used as raw materials for export grade textile. According to industry sources, cotton garment manufacturers have to rely on imports for certain variety of cotton which is not produced domestically. The Union Budget 2021-22 imposed customs duty of 5% (besides Agriculture Infrastructure Development Cess of 5%) on cotton and 10% duty on cotton waste.

The government discountinued the existing benefit of duty-free import of accessories such as button, beads, rivets, sewing thread etc, used in the process of producing finished textile materials by exporters. Under the current system, textile exporters are allowed to import these accessories duty-free by producing Export Performance Certificate (EPC) obtained from Apparel Export Promotion Council. However, with the discontinuance of duty exemption in the current budget, textile exporters will have to pay duty on import of these raw materials from April 1, 2021. Alternatively, they can import these accessories duty-free by executing bond with the customs authority. The Tiruppur Exporters' Association (TEA) feel that executing bonds with the customs will increase compliance burden on them and hence they want the government to allow the existing practise of duty-free import of these accessories upon submitting EPC obtained from Apparel Export Promotion Council.

The latest Union Budget imposed 10% customs duty of on tanned and finished leather, besides other varieties. Although the government has taken this measure to protect local leather suppliers, manufacturers of finished leather goods feel that this will increase cost of production of leather bags, footwear, jackets and accessories as they depend on import of leather.

Gems and Jewellery

Exporters of gems and jewellery welcomed the government's move to reduce import duty on gold and silver in the latest budget as it would reduce the cost of raw material for this sector and make exports globally competitive. The reduction in duty will also disincentivise import of gold and silver through illegal channels, the industry opines. The government reduced duty on gold and silver from 12.5% to 7.5% and clarified that the newly introduced Agriculture Infrastructure and development Cess will not be applicable to exporters of gems and jewellery. The move may reduce raw material import cost for gems and jewelllery exporters and thus support exports. Gems and jewellery exports has declined from USD 43 billion in 2016-17 to USD 36 billion in 2019-20 and as a share of overall merchandise exports it declined from 15% to 11.5% during this period.

Electrical and Electronics

Manufacturers of LED lighting products raise concern that the government's move to hike import duty on inputs used in LED lights, fixtures and lamps will increase cost of production and the final price. According to the industry, local manufacturing capacity cannot be developed for these inputs overnight and hence manufacturers will rely on imports of these products in the short to medium run. LED lights manufacturers depend on imports to the extent of 35-40% of intermediate goods, due to lack of sufficient local production capacity, and hence the hike in import duty from 5% to 10% for inputs will raise final price of the finished products.

The government has also hiked import duty on a wide range of accessories and inputs used in mobile phone industry, some of which are: Printed Circuit Board Assembly, camera module, connectors, inputs for mobile chargers, moulded plastics used in production of charger and adapters etc. The hike in customs duty, along with the government's announcement of production linked incentive (PLI) scheme for electronic components will strengthen local manufacturing capacity for mobile phones and its accessories. Already, large multinational companies such as Foxconn, Wistron and Pegatron have responded positively to the PLI scheme, besides some domestic companies such as Lava and Micromax.

Way forward

The government has tinkered customs duties to promote local value addition and reduce reliance on imports across various sectors. However, the success of these initiatives will depend on how local manufacturers respond to the duty changes by increasing local production capacity. In order to enhance global competitiveness of local manufacturers, the government should support MSME clusters by setting up common facility centers and effective implementation of skill development programmes. Also, local manufacturers need support in terms of setting up common infrastructure for testing quality standards and conformity assessments.

Promoting logistics and e-commerce is another way to support local manufacturers of consumer and industrial goods. Some experts feel that the government should set up dedicated E-Commerce Export Zones (ECEZ), which will be a single point of aggregation for all outbound shipments through e-commerce. Such dedicated zones should have support facilities such as warehousing, customs clearance, access to Foreign Post Offices and international fulfillment centres.

The government may also allow bulk clearance for import and export of goods through e-commerce. Currently, exporters and importers have to file separate customs documents for different parcel of goods despatched through e-commerce. Allowing bulk clearance facility will enable single filing of customs documents for different parcels and thereby simplify customs procedures for exporters and importers.

Hopefully, government will consider these measures while introducing the next Foreign Trade Policy, which is likely to be announced by April 2021. The Policy may also introduce reforms to revive investor interest in Special Economic Zones and mandate global quality standards for locally manufactured goods. Exporters are keenly awaiting to know whether the next Foreign Trade Policy will continue the existing export promotion incentives such as interest equalisation schemes and Export Promotion Capital Goods.

Notifications

PIB

PM addresses circular economy Hackathon

https://www.pib.gov.in/PressReleasePage.aspx?PRID=1699279

India holds 11th Macroeconomic Dialogue with EU

https://www.pib.gov.in/PressReleasePage.aspx?PRID=1699460

Deendayal Port crosses 100 MMT in cargo handling

https://www.pib.gov.in/PressReleasePage.aspx?PRID=1699364

DGFT

Issuance of Certificate of Origins through Common Digital Platform (CDP)

https://content.dgft.gov.in/Website/dgftprod/2dc19ed7-3e7e-4e4b-aecc-a0bb5a5056fb/TN%2042%20dt%2019-02-2021.pdf

CBIC

Imposition of definitive anti-dumping duty on imports of Aniline

https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2021/cs-add2021/csadd08-2021.pdf