

High Import Duty On Capital Goods May Risk India's Potential As Global Manufacturing Hub

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Vietnam, one of India's closest competitors in the ongoing supply chain reshuffling, has a much more favourable tariff profile for importing capital goods

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A higher import duty on capital goods may hinder India's potential as a global manufacturing hub and hence it should reconsider the import duty to enhance its participation in the global value chain and accelerate the success of its Make in India program, MVIWDC World Trade Center Mumbai said in a report.

The report suggested that India should consider rationalising the import duty on capital goods to not only assist domestic manufacturers in adopting modern and cutting-edge technology but also to foster fair competition in the domestic market.

"In this regard, India can draw lessons from countries like Japan and South Korea, which have developed into world-class manufacturing hubs by allowing free movement of goods and technology," it added.

With the mission of becoming a global manufacturing hub, India has gradually adopted a protectionist approach through its import duty regime to safeguard local manufacturing industries. However, a blanket increase in tariff rates may hinder India's potential to emerge as a promising alternate manufacturing hub, it added.

An analysis of the latest World Trade Organisation (WTO) tariff profile database by WTC Mumbai revealed that India has the highest average import duty in comparison to 11 prominent developing and developing economies.

Notably, leading developing countries such as Vietnam impose 47 per cent less tariff than India at 9.6 per cent, with its trade-weighted average duty being 5.1 per cent. Similarly, Brazil and Mexico also have a lower tariff profile than India.

The report stated that in the last 11 years, the gap between India's average most favoured nation (MFN) rate and the corresponding global rate nearly doubled. India raised tariffs on imports of not only non-essential goods but also on intermediate and capital goods that are used in the manufacturing process.

In the last 11 years, India's trade-weighted average MFN rate rose 48 per cent (from 7.7 per cent to 11.4 per cent), while the global average decreased by eight per cent (from 7.5 per cent to 6.9 per cent). On average, India imposes higher import duties on capital goods such as electrical machinery (10.7 per cent), non-electrical machinery (8.2 per cent), and transport equipment (29.1 per cent), compared to the global average tariff.

According to the report, India had the highest import duties globally, with an average MFN rate of 18.1 per cent, twice the global average. India's trade-weighted average duty was also 1.7 times higher than the global average.