

India should reconsider import duty on capital and intermediate goods

Synopsis

Nations such as Vietnam impose 47% less tariff than India at 9.6%. On the similar lines, Brazil and Mexico also have a lower tariff profile compared to India.



In the last 11 years, the gap between India's average MFN rate and the corresponding global rate nearly doubled.

India may reconsider its [import duty](#) to enhance its participation in the global value chain and accelerate the success of its Make in India program. An analysis of the latest [WTO](#) Tariff Profile database by [MVIRDC](#) World Trade Center Mumbai reveals that India has the highest average import duty in comparison to 11 prominent development and developing economies.

Leading developing countries such as [Vietnam](#) impose 47% less tariff than India at 9.6%, with its trade-weighted average duty being 5.1%. Similarly, Brazil and Mexico also have a lower tariff profile than India.

In the last 11 years, the gap between India's average [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% (from 7.7% to 11.4%), while the global average decreased by 8% (from 7.5% to 6.9%). On an average, India imposes higher import duties on capital goods such as electrical machinery (10.7%), non-electrical machinery (8.2%), and transport equipment (29.1%), compared to the global average tariff.

The report suggests that India may reconsider its import tariff structure, particularly for capital goods, in order to attract investment in domestic manufacturing. India can learn from Japan's approach to strategically use imports by lowering duties on critical intermediate and capital goods as high import duties may deter foreign investors.

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