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THINK BIG: ON IMPORT DUTY HIKE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Foreign capital, Foreign Trade & BoP

The Centre's decision to increase customs duty on imports of 19 "non-essential" items amounts to tinkering at the margins to address a structural macro-economic issue. Using tariffs to curb imports of these items will not have a significant impact on narrowing the current account deficit (CAD), which is the Centre's stated objective. By its own admission, the aggregate value of these imported items in the last fiscal year was just 86,000 crore. At that level, these imports constituted a little less than 3% of the country's merchandise import bill in 2017-18. With the first six months of the current fiscal having elapsed, the impact of this tariff increase in paring the import bill and thus containing the CAD is at best going to be short-term and marginal. On the other hand, the decision to double import duties on a clutch of consumer durables to 20% could dampen consumption of these products, especially at a time when the rupee's slide against the dollar is already likely to have made these goods costlier. Here, it would be interesting to see if the government's move turns into a psychological 'tipping point' that ends up altering consumption behaviour towards this category of imported merchandise. If it does, that could have the salutary effect of fostering greater investment in the domestic production of some of these goods. The tariff on aviation turbine fuel — which will now attract 5% customs duty instead of nil — may add to the stress of domestic airline operators, the rupee and rising oil prices having already hurt their wafer-thin margins.

A more robust approach in addressing the widening CAD would be to institute wide-ranging measures to boost exports and simultaneously reduce the import-intensity of the economy. Policymakers must renew efforts to ensure that export growth starts outpacing the expansion in merchandise imports. This includes expediting the refunds on GST to exporters — smaller exporters have been badly hit by working capital shortfalls — to working to woo some of the labour-intensive supply chains that are moving out of China to countries such as Vietnam and Bangladesh. On import substitution, it is an irony that despite the abundance of coal reserves, thermal coal is one of India's fastest-growing imports. This is a consequence of under-investment in modernising the entire coal production and utilisation chain and must be addressed expeditiously. With global crude oil prices showing no signs of reversing their upward trajectory, and the sanctions on Iran that may force India to look for other suppliers looming, the government will need to act post-haste to address structural imbalances to keep the CAD from widening close to or even exceeding the 3% of GDP level.

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