India's import tariffs in the Electronics sector higher than China, Vietnam and others: ICEA Study

- **High tariffs negate PLI, and adversely impact competitiveness and scale. Needs review**

New Delhi, 06th January, 2022: India's premiere electronics association ICEA, in collaboration with IKDHVAJ Advisers LLP, released a detailed comparative study of 120 tariff lines of electronics priority products in India vis-à-vis four key competing investment destinations – China, Vietnam, Thailand and Mexico. These imports constitute 80% of the cost of mobile phones – India's largest produce out of the US $75 bn electronics sector.

Key Findings:

The comparative Study highlights that while India has zero tariffs on 32 of the 120 tariff lines, others have many more zero tariffs, ranging from 53 (China) to 74 lines (Mexico). For non-zero tariffs, India's tariffs are higher for 85% (Thailand, Vietnam) to 95% (China) of these tariff lines. Vietnam's effective tariffs are lower also because of its FTAs with major suppliers of inputs. The trend: For the selected products, India has the largest number of tariff lines with tariffs in 2020 being higher than in 2014.

India's higher tariffs are even more evident for the priority products identified by the industry. For finished products, India's tariffs are slightly lower for only one tariff line of China. However, for inputs (components and sub-assemblies), there is no tariff line for which India's import duty is lower than the competing economies, showing the relatively higher costs of production in India compared to the four economies.

Impact of High Tariffs:

The Study shows that higher tariffs negate the support provided through PLI Schemes. Further, levying tariffs for revenue purposes is counterproductive because of GST losses due to lower output and imports. Additionally, India's higher tariffs increase production costs due to both costlier imports and lack of adequate domestic products available to substitute the more expensive imports – adversely affecting both exports and the ability to competitively link up with GVCs. Additionally, higher tariffs lead to negative effects on sectors like automotive products and medical devices, to which electronics are major inputs.

"*A US $ 300 billion manufacturing target by 2026 requires stability and prior consultation before finalizing tariffs. Tariffs go to the core of competitiveness and scale. For Union Budget 2022-23, we request the government to review all tariffs on inputs for PLI schemes and reduce tariffs in areas where there is no local capacity*", said **Mr. Pankaj Mohindroo, Chairman ICEA.**

Recommendations:

The Study concludes that for India to integrate into global supply chains, its tariffs on inputs should at least match or be less than that of its competitors. Tariff increases should only be considered in cases where there is large domestic capacity or a clear roadmap with specific, well-identified vendors who can produce components for manufacturers at globally competitive costs, quality and scale. Not otherwise.

Background of the Study and Choice of Economies:

The four international destinations chosen for the Study was based on two factors. First, these are destinations that global investors consider and compare before moving large-scale manufacturing investments. Second, these countries are the most dynamic manufacturers and exporters of electronics goods – improving from relatively low exports only 20 years ago. In 2020, China's electronics exports were about 81 times that of India, and exports of the others ranged between 4.6 times (Thailand) to 11.3 times (Vietnam).

The PLI Schemes for Semiconductors, Smartphones and IT Hardware underscore the importance that the government attributes to Electronics as a priority sector. In turn, mobile is a leading contributor in the US $75 bn domestic electronics industry which is expected to increase 3.7 times, spurred significantly by a 13-times increase in exports by 2026.

Some Important Tables:

Comparison of Number of Tariff Lines with Zero Tariffs

	No. of Tariff Lines	India	China	Mexico	Thailand	Vietnam
Total Tariff Lines Compared	120	32	53	74	55	59
Of which: Priority Products	31	9	21	23	19	19

Comparison of MFN Tariffs for 88 HS 8 Digit Lines of India With Non-Zero Tariffs

	India's MFN Tariffs Higher Than The Competing Country's Tariff	India's MFN Tariff Lower Than The Competing Country's Tariff
China	84	4
Mexico	78	10
Thailand	75	13
Vietnam	75* (59)	13* (29)

Note: * = Adjusted for impact of FTA on applied tariffs of Vietnam. The number in the parentheses show the situation with MFN tariffs

High Tariffs on Inputs Negate the Effect of PLI Schemes

Impact of High Tariffs	Figures are in Percentages
Impact of tariffs on BOM in 2020	6.32
Impact of tariffs on BOM in 2021	1.76
Total Impact on BOM	8.08
Cost Increase of Mobile Phones due to tariff hike	5.7
Average benefit from PLI	5.02
Net Benefit of PLI for Mobile Phones	0

Notes: (1) According to Industry Feedback, Bill of Materials (BOM) accounts for around 70% of the cost of a Smartphone, hence total cost increase is 8.08% X 0.7 which is equal to about 5.7%. In addition, there is a 10% Social Welfare Surcharge levied on the Basic Custom Duty.
(2) Industry estimate of average support through PLI.

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About ICEA:

ICEA with its motto - INSPIRE, ENABLE, and LEAD is the apex industry body for mobile and electronics industry comprising of manufacturers, brand owners, technology providers, VAS application & solution providers, distributors and retail chains of mobile handsets and electronics. ICEA is committed to carrying forward its vision of building strong "self – reliant and export focused" Indian electronics manufacturing and design ecosystem while consolidating the gains made in the mobile handset and components industry. ICEA is fully devoted towards improving the competitiveness and growth of the industry by closely working with the ministries of the Government for creating a robust, legal and ethical electronics industry, thereby creating an innovative market environment in the country.

For additional information, please contact:
Nishant Nirmal, nirmal@silvicpr.com, 93542 03223
Deepti Bhattacharya, deepti@silvicpr.com, 9899890508