



PRESS RELEASE

Electronics industry seeks lower tariffs and support for local ecosystem in Union Budget 2024-25

New Delhi, July, 2, 2024: India Cellular & Electronics Association (ICEA), India's premier electronics body, has laid out recommendations for the electronics industry in Union Budget 2024-25 aimed at attracting Global Value Chains (GVCs) to India and scale up electronics production and exports in the next five years. These include reduction in input tariffs and PLI for building a components ecosystem.

The recommendations are based on a detailed 7-country "Tariff Study" on input tariffs for smartphones, examining the impact of high tariffs on India's mobile phone manufacturing and export competitiveness. The study shows that India continues to have the highest tariffs on inputs amongst competing economies. High tariffs on inputs increase costs, making Indian industry less competitive, and hindering its ability to join GVCs. This discourages GVCs from shifting to India. Competitiveness is critical to building scale and attracting FDI which in turn, positively impacts domestic value addition and job creation.

Rationalize Duties on Mobile Phone Parts and Sub-assemblies:

A June 2024 Input Tariff Study for 8-digit HS codes for smartphones by ICEA highlights that India continues to have highest input tariffs - significantly higher than China and Vietnam.

India's simple average MFN tariff for inputs is 7.4%, compared to China's effective zero tariffs offered in bonded zones and Vietnam's 0.7% FTA weighted average tariffs (**Table 1**).

Further, a line-by-line comparison of smartphone tariffs also shows that highest MFN tariffs for China are at 10% and highest Weighted Average Tariffs for Vietnam is at 6.7%. In contrast, India has many tariff lines with higher tariffs (**Table 2**). Almost all (97%) of Vietnam's weighted average tariffs are between zero to 5%, while 56% of China's tariff lines are in that range. India's non-zero tariffs also show that India has higher MFN tariffs for 84% of the HSN lines compared to China, and 98% of the HSN lines compared to Vietnam.

That electronics is China and Vietnam's largest multi-hundred billion dollar export goes to prove that GVC participation and low tariffs are a time-tested strategy for building a country's export prowess in electronics sector.

"Sustaining the tremendous growth in mobile phone production and exports, requires matching the competitive tariff regimes of China and Vietnam. Current high tariffs increase manufacturing costs in India by 7-7.5% on the bill of materials (BoM), deterring local ecosystem development, hampering exports and adversely impacting job creation", said Pankaj Mohindroo, Chairman of ICEA."

ICEA recommends a Glide Path to Tariff Reduction

ICEA's tariff study recommends a glidepath for reducing India's input tariffs to match the competitiveness of China and Vietnam. The study suggests that any revenue foregone under this

tariff reduction would be more than compensated by the additional revenue generated from higher affordability, increased production, sales of smartphones and higher economic activity following job creation.

To attract GVCs and increase the scale of production, ICEA recommends the following key measures: (**Table 3**).

- All tariff lines which increase costs significantly, including components of complex sub-assemblies, should be brought down to Zero.
- India's 7 tariff slabs for mobile sector should be reduced to 3+1 slabs - 0%, 5%, 10% and 15% by 2025.
- The reduction in duty from 20% to 15% on PCBA, Charger adapter and mobile phone and reduction in duty on mic/receiver from 15% to 10%. This will have no impact on current domestic manufacturing.
- Removal of 2.5% tariff on Sub-assembly Parts and Inputs (like PCBA parts, connectors, camera modules, etc.). These tariffs don't serve any purpose. They fail to build a domestic industry while increasing costs, complexity and compliance for legitimate manufacturers.

ICEA recommends developing a Components and Sub-assembly Ecosystem

To build a sustainable and robust electronics manufacturing industry, it is imperative to develop a components and sub-assembly ecosystem. The government should provide appropriate policy and financial support for building large-scale components and sub-assembly ecosystem, with a longer gestation and incentive period. This will offer long-term policy predictability and certainty, creating an environment for business continuity. It will further enable creation of jobs, foster advanced skills, integrate into the electronics GVCs, achieve scale, increase exports, and enhance value addition.

Need to evolve into a Globally Competitive Manufacturing and Export Hub

Electronics manufacturing in India has become a significant sector for economic growth and job creation. To advance primarily through exports, India must evolve into a globally competitive manufacturing and export hub. Attracting GVCs and developing large-scale Indian companies is essential. These companies need to establish global-scale factories and warehousing to ensure just-in-time delivery.

India's electronics manufacturing output has reached a record-breaking USD 115 billion in FY24, with USD 29.1 billion in electronics exports, making electronics the fifth-largest export category from India. Mobile phones alone contributed over 54% of this export with a production out of USD 51 bn in FY24. Over the past ten years, mobile phone production has increased by 21-fold, while exports have grown by 81-fold, moving away from import dependency from 78% in 2014-15 to less than 3% in FY23-24. The growth in mobile phone production is now primarily led by exports.

Mr Mohindroo emphasized the broader vision behind these recommendations, stating, "Our goal is to further accelerate the current growth in electronics manufacturing to next level. Through a focused policy, financial support, globally competitive tax regimes, and by fostering advanced skills, India can become a leader in the global electronics industry. Now is the moment to seize our future and lead with innovation, self-reliance, and strategic foresight."

Table 1: Comparison of India's MFN and FTA tariffs with China and Vietnam

India Vs China		India Vs Vietnam	
Simple Avg of MFN Tariff		Simple Avg of FTA Weighted Avg Tariff	
INDIA	7.4	INDIA	6.2
CHINA	4 (MFN Tariff) / 0% (Effective Tariff in bonded zone)	VIETNAM	0.7

Table 2: Comparison of tariffs across 65 tariff lines in India, China and Vietnam

MFN Tariff Distribution (India & China)							
COUNTRIES	Zero	0+ to 5%	5+ to 7.5%	7.5+ to 10%	10+ to 15%	15+ to 20%	20+ %
INDIA	20	10	1	3	27	6	3
CHINA *China has 2 HSN codes with different MFN tariffs, hence 67 tariff lines considered	36	3	7	24	No tariffs in this range		
Distribution of FTA Weighted Average Tariffs (India & Vietnam)							
COUNTRIES	Zero	0+ to 5%	5+ to 7.5%	7.5+ to 10%	10+ to 15%	15+ to 20%	20+ %
INDIA	20	11	6	10	17	3	1
VIETNAM	37	29	2	No tariffs in this range			

Table 3: Recommended Glidepath of Tariffs in Union Budget 2024-25

SR. NO.	DESCRIPTION	HSN CODE	EXISTING	PROPOSED 2024-25
A.	DUTY REDUCTION FROM 20%			
1.	Charger/ Adapter	85044030 / 85044090	20	15
2.	Printed Circuit Board Assembly (PCBA)	85177910	20	15
B.	DUTY REDUCTION FROM 15%			
3.	Mic and receiver and Speaker	85177990 / 85182990	15	10
C.	Duty Reduction From 2.5%			
4.	Parts of PCBA	Any Chapter	2.5	0
5.	Parts of Camera Module	Any Chapter	2.5	0
6.	Parts of Connector	Any Chapter	2.5	0