Detailed Analysis of Recent Tariff Changes

New Delhi, January 31, 2024…The industry is extremely thankful for the government's response to ICEA's detailed academic study titled *"A Comparative Study of Import Tariffs impacting India's competitiveness in Mobile Manufacturing & Exports",* available on ICEA's website.

Background:

As a background to today's reduction in input tariffs in select areas, ICEA had, through a detailed study of 65 HS codes across 7 countries, established that India has the highest tariffs on inputs. Further that, high tariffs increase costs, and make India less competitive, making it difficult for companies to join GVCs and similarly discourage GVCs from shifting large scale production to India.

The Study shows that India's simple average MFN tariff for inputs is 8.5% higher than China's 3.7%. In practice, China's tariffs are closer to zero because most mobile production takes place in 'Bonded zones' where all inputs are at zero tariffs.

Nearly 80% of Vietnam's imported inputs are from countries with whom it has FTAs. Hereto, FTA weighted average tariff comparison between India and Vietnam shows that India's simple average is at 6.8% vis-a-vis Vietnam's at 0.7% ***(see Table 1)***.

Further, the highest tariffs for both China and Vietnam are 10% maximum. By contrast, India has many more tariff lines, in addition to higher tariffs ***(see Table 2).*** Almost all (97%) of Vietnam's weighted average tariffs are between zero to 5%, while 60% of China's tariff lines are in that range. A line-by-line comparison of India's non-zero tariffs shows that India has higher MFN tariffs for 85% of these lines compared to China, and 100% of the lines compared to Vietnam.

Higher tariffs in India impact costs by 6-7%, compared to Vietnam and China:

The Study also shows that higher tariffs of India result in an overall loss of competitiveness of about ~ 6% to 7% compared to Vietnam and China. The study's results also indicate that the price rise due to India's high tariffs on inputs perpetuate imports, contrary to policy objectives of building a local ecosystem and increasing domestic value addition.

What does today's notification reducing tariffs on inputs for mobile manufacturing signify?

1. **Reduces costs and chances for disputes:** The reduction of certain tariffs and rationalisation of duty in the 'Others' category will help increase India's cost competitiveness and reduce scope for misinterpretation and disputes – a key EoDB issue.

2. **Building Value Addition is linked to scale, not tariffs:** Establishes that Domestic Value Addition is a function of scale. Scale, in turn, can only come from exports in the electronics sector. Once India achieves scale, manufacturing of components and sub-assemblies will shift in large numbers to India which, in turn, increases Domestic Value Addition.

3. **Mobile sector transforming from import substitution to exports:** From 78% import dependency in 2014-15, 99.2% of all mobile phones sold in India are now made in India. Domestic market constitutes $33 billion at the end of FY'23 and exports ($11.1 billion) now constitute 25% of the total production India's market for mobile phones is changing. We need to gear up to build production and add large number of jobs by exporting to the world.

4. **Incentives help competitiveness, not tariffs:** Recognition that incentives - and not high tariffs on inputs - help build competitiveness or scale in a sector that is transforming from import substitution to export-led growth.

5. **Specific sectors and tariff lines need to be targeted for competitiveness:** For India to be competitive, achieve global scale to attract GVCs (which dominate over 75% of the $25 trillion global trade), and succeed in "Make in India for the World" initiative, India needs to increase competitiveness in certain select sectors by identifying specific tariff lines, such as the ones addressed in this notification.

6. **Consistent with global experience and India's policy objectives:** No country in the world has succeeded in enhancing trade and exports with high input tariffs. High input tariffs goes against India's stated ambitions of reaching $2 trillion exports - a large part of which will come from electronics and mobile exports.

7. **Short-term solutions can precede FTAs:** That waiting for full-fledged FTAs cannot come in the way of building trade competitiveness. Focusing on specific tariff lines is a good short-term solution to broader trade agreements which can take time on account of bilateral negotiations.

8. **Electronics can become top 3 exports from India in 2 years:** Electronics has improved from the 9th position few years ago to India's 5th largest export in 2024. Can reach Top 3 by 2026. Mobiles constitute over 52% of electronics exports, thanks to the PLI Scheme. This is the first industry to leapfrog out of import substitution to export-led growth within the last 8 years. Government has been an excellent and willing partner in this transformation.

Quotes by Pankaj Mohindroo, Chairman, ICEA:

- "There is now clear realization that incentives in certain key sectors such as mobile manufacturing and components - and not tariffs - will help expand production, build competitiveness and add jobs," said Pankaj Mohindroo, Chairman, ICEA.
- "This is a critical and welcome policy intervention by the Government towards making mobile manufacturing competitive in India. Building scale, riding on low input tariffs is key to transforming India into a global hub for Electronics Manufacturing and Exports", added Pankaj Mohindroo.

TABLES

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

India Vs China		India Vs Vietnam	
Simple Avg MFN Tariff		Simple Avg FTA Weighted Avg Tariff	
INDIA	**8.5**	**INDIA**	**6.8**
CHINA	3.7 (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 10%**	**10+ to 15%**	**15+ to 20%**	**20+ to 25%**
INDIA	15	9	6	**21**	**11**	**3**
CHINA *China has 2 HSN codes with different MFN tariffs, hence 67 tariff lines considered	36	3	28	**No components or sub-assemblies above 10% tariffs**		
Distribution of FTA Weighted Average Tariffs (India & Vietnam)						
COUNTRIES	**Zero**	**0+ to 5%**	**5+ to 10%**	**10+ to 15%**	**15+ to 20%**	**20+ to 25%**
INDIA	15	12	17	**15**	**5**	**1**
VIETNAM	39	24	2	**No components or sub-assemblies above 10% tariffs**		