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Govt hikes import duties on 19 items

These items accounted for only 2.8% of total import bill in FY18

BASIC CUSTOMS DUTY

Old / New (in%)

	Old	New
ACs, home refrigerators, washing machines (less than 10kg)	10	20
Compressors for ACs, fridges	7.5	10
Speakers, radial car tyres, plastic toilet hardware, insulated wares, suitcases, travel bags	10	15
Footwear	20	25
Jewellery and parts, precious metal or metal clad with precious metal	15	20
Aviation turbine fuel	0	5

Source: pib.nic.in

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Nearly two weeks after announcing its plans to curb "non-essential" imports, the government on Wednesday raised import duties on 19 items, including consumer electronics, diamonds, jewellery, jet fuel and leather footwear, to curtail the widening current account deficit. The new tariffs come into effect from Wednesday midnight.

The import of these 19 items cost ₹860 billion in 2017-18, according to the finance ministry. This, however, constituted just 2.8 per cent of India's total import bill last financial year, raising question marks over the efficacy of the measure.

"The hike in import duties on the identified non-essential items is likely to have a modest impact on curtailing the size of the current account deficit (CAD) in FY19," said Aditi Nayar, principal economist at Icra. The rating agency expects the CAD to widen to $72-77 billion (2.8 per cent of GDP) in 2018-19, from $48.7 billion in 2017-18 (1.9 per cent of GDP).

The highest number of items on the list belongs to the electronics category, which makes up the third-biggest chunk of the import bill after crude oil and gold. The customs duty on speakers, air conditioners, household refrigerators, and washing machines of less than 10 kg has been hiked from 10 per cent to 20 per cent. On the other hand, compressors for these household devices will now see a higher tariff of 10 per cent compared to 7.5 per cent at present.

However, despite India importing $21 billion worth of electronics in 2017-18, led mostly by mobile phones and their components, the government decided not to touch these on Wednesday. "A panel under the Cabinet secretary is already looking at reducing the dependence on all imported electronic products, including mobile phones," a top commerce department official said.

The government has cracked down on the import of diamonds in various forms as well as coloured gemstones. Articles of jewellery and precious metals as well as goldsmith or silversmith wares, which make up a sizeable $3.14 billion worth of imports, have been included in the latest set of restrictions. No customs duty hike has been announced on import of gold, but senior officials have suggested that a decision on the shiny metal might be taken soon.

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The decision to tax gold and silver jewellery at a higher duty of 20 per cent has been received well by the industry. "This will help reduce jewellery made outside India and support domestic jewellers," said Surendra Mehta, national secretary, Indian Bullion and Jewellers Association. According to industry sources, India's annual gold jewellery import is about ₹100 billion.

The government is confident of not being challenged by other nations on the latest policy move. "Under the norms of the World Trade Organization, we have the right to use tariffs as long as they are under the fixed bound rates," Commerce Secretary Anup Wadhawan said.

Experts echoed this view. "In today's global trade regime, one has to be careful in imposing tariffs, especially given the spate of protectionism originating from major economies. However, provided the tariff hikes are imposed on a 'Most Favoured Nation' principle, that says tariffs have to be levied at the same rate for every nation, they are well within trade rules," senior trade expert and Jawaharlal Nehru University professor Biswajit Dhar said.

Customs duties on sanitary ware such as bath, shower bath, sinks, wash basin as well as plastics have been raised from 10 per cent to 15 per cent. Another set of daily household items including tableware, kitchenware and other household items of plastics has seen a similar increase. India imported a total of $124 million of these items in 2017-18.

Air Turbine fuel, import of which stood at $180 million in the last financial year, has also been slapped with a 5 per cent tariff as compared to the zero duty earlier. A senior airline executive said this would not have any impact on airfare as Indian carriers hardly import jet fuel.

The trade deficit, which is the biggest part of the CAD, reduced to $17.4 billion in August, lower than the $18.2 billion seen in July. In the two months of July and August, the trade deficit has risen to $35.6 billion after it stood at almost $45 billion in the first quarter of the current financial year. As such, CAD will definitely come under pressure now, with economists forecasting a sustained rise in crude prices globally.