FINANCIAL EXPRESS
TUESDAY, JANUARY 21, 2020

Curbs on duty-free booze won't fix import hangover

Policy to produce minerals here & promoting electronic value-add is needed, not restricting duty-free shopping

IF ONLY, THE perfect *swadeshi* dream probably goes, India had the political will, it could restrict—in FY19—$514.1 bn of imports, not only saving precious foreign exchange but also adding a lot of potential manufacturing opportunity for Indian firms, considering India's import-to-GDP ratio is 18.9%. Restricting all imports, of course, is not possible; it drives up prices of goods for both consumers and manufacturers and, in many cases like oil or various minerals, imports are critical since there simply isn't enough production in India. Which is why, over the past few years, the government has been hiking import duties of just some goods. The latest suggestion from the commerce ministry is that passengers coming in from abroad be allowed to buy only one bottle of alcohol from duty-free shops instead of two, and that even the one carton of cigarettes allowed right now be stopped; it appears, import duties are to be raised on hundreds of 'non-essential imports', like toys, footwear, and rubber goods.

It is not clear if finance minister Nirmala Sitharaman will do this in the budget, but if she does, this is not just missing the woods for the trees but, worse, for the branches given how minuscule such imports are. While sales of duty-free alcohol is, at best, a few hundred million dollars, India's imports of minerals (including oil) are over $280 bn while that of mobile phones/components is around $23-24 bn. Instead of trying to save a few hundred million dollars, India should be aiming to curb these imports given that, were India's domestic policies to encourage domestic exploration and production, in fact, these imports are really the 'non-essential' ones. Indeed, in the case of mobile phones, while India's domestic assembly of phones has risen manifold over the past few years, so have imports of components since the government has not been able to woo big companies like Apple and Samsung, who can do more value addition in India. Worse, with its domestic manufacturing policies still quite restrictive, India remains quite uncompetitive and, so, while exports of countries like Vietnam have spiraled, India's exports rose just 5% in the last five years, from $314 bn in FY14 to $330 bn in FY19; had India's exports been rising fast, there would be no talk of curbing imports.

Apart from the fact that India will not be able to export if it keeps driving up import tariffs—reduction of import restrictions/tariffs has been a common demand in all of India's bilateral and multilateral trade negotiations—higher import duties just make Indian production more uncompetitive. Import duties give extra protection to local manufacturers who, then, have no reason to try and bring down costs. In an increasingly globalised world, if you are not globally competitive, you can't even be locally competitive since either imports or smuggled goods—in case, import tariffs are high—will pour in. If the hike in import duties was temporary, and was accompanied by dramatic and sweeping changes to make local production more competitive, it could still be acceptable; but, there is little evidence of that happening. Indeed, when import protection falls, as it did in the early 1990s, this becomes a trigger for some local reform as well. The government will be hard-placed to show examples of countries that have become more competitive while hiking import tariffs/restrictions, but it is fair to say the move will go down well with individual lobby groups like domestic manufacturers of IMFL, cigarette producers, etc.