RELOOKING
INDIA'S TARIFF POLICY
FRAMEWORK

India Exim Bank

Relooking India's Tariff Framework

Executive Summary

This Study has been undertaken by the Export-Import Bank of India (EXIM Bank) in collaboration with Dr. H.A.C. Prasad, Former Senior Economic Advisor, Ministry of Finance, Government of India.

This paper is an attempt by EXIM Bank to disseminate the findings of research studies carried out in the Bank. The results of research studies can interest exporters, policymakers, industrialists, export promotion agencies as well as researchers. However, views expressed do not necessarily reflect those of the Bank. While reasonable care has been taken to ensure authenticity of information and data, EXIM Bank accepts no responsibility for authenticity, accuracy or completeness of such items.

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Relooking India's Tariff Framework Executive Summary

This study examines India's Tariffs in general and also in the context of the Preferential Trade Agreements; and suggests policies and strategies for rationalisation of India's tariffs both general and preferential.

Chapter 1 briefly examines India's progressive liberalisation and tariff movements; gives the recent developments in global and Indian trade situations; analyses the rising protectionist tendencies; and reviews the recent developments in India's trade negotiations, both multilateral and in FTAs/RTAs.

Chapter 2 examines India's tariff structure in general and by sectors. In the beginning, India's tariffs and tariff structure are examined as per different terminologies. These include India's Bound and Applied MFN Tariffs, Total Duties, Effectively Applied Tariffs and the less common and rarely used Realized Tariff Revenue. Preferential Tariffs are dealt in detail in the next Chapter. Then import tariffs on India's exports in major markets are examined. This is followed by a comparison of tariffs in India and some select trading partner countries. India's tariffs by broad sectors, agricultural and non-agricultural and also by product groups are examined next. This Chapter also analyses India's tariffs by stages of processing.

Chapter 3 begins by making a brief historical review of Tariff Escalations and Tariff/Trade Wars/ Conflicts and examines the recent Trade Tensions between the US and other countries. Two developments of relevance to India in this context are the US-China Trade war; and the tariff escalations between the US and India. These are examined in detail using empirical data supported by the practical experiences of different stakeholders.

Chapter 4 first examines the importance of PTAs/FTAs/RTAs/CECAs in India's exports and imports and their performance over the years. Then the extent of preferential trade of FTA partners with India and Vice Versa is examined. This is followed by an examination of the tariffs in the existing PTAs/FTAs/ RTAs/CECAs to which India is a party, mainly the more important ones for which data are available. While FTAs/RTAs etc. also cover issues other than tariffs, the focus of this study is on tariffs in these FTAs/RTAs and rationalization/reforms in this context. This also includes a sector-wise analysis. This is followed by an analysis of total duties in 2 select FTAs. The analysis of tariffs in FTAs by stages of processing both on the imports and exports side is done next.

Chapter 5 examines the practical issues related to Tariffs, based on the experience of Trade & Industry, Associations related to farm products and other stakeholders. Two major issues have been examined here. First, rationalizing MFN applied tariffs and preferential tariffs in different sectors including raising/lowering tariffs and addressing inverted duty structure in some sectors. Second, examining the possible impact of India entering into new FTAs like RCEP, Indo-US FTA, etc. for different sectors.
Chapter 6 examines the important issues and gives policy suggestions. These issues and suggestions are related to India's tariff structure and rationalization in general including the level of tariffs, inverted

duty structure, non-ad valorem tariffs and multiple tariff rates; rationalization of preferential tariffs; rationalization of tariffs in the light of 'Make in India' and Export Promotion Schemes; tariff policies and strategies for multilateral & bilateral negotiations; tariff related policies to move up the stages of processing and greater participation in Global Value Chains and policies in the context of recent trade wars and tariff escalations including US withdrawal of GSP from India. It also suggests a mechanism for regular monitoring of tariffs and indicates the timelines for tariff reforms.

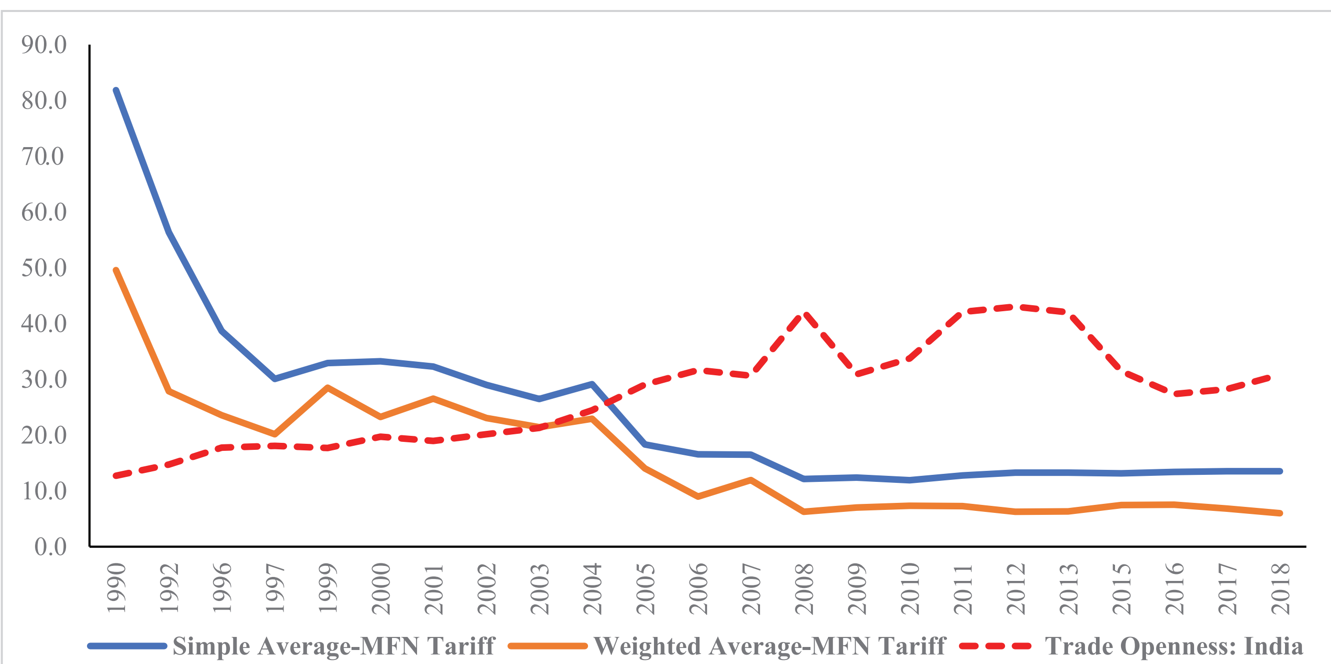
RECENT GLOBAL AND INDIAN TRADE PERFORMANCE AND TARIFFS

India's Trade Openness and Tariffs since the 1991 Reforms

Until the early 1990s, India was a relatively closed economy. In 1991, the country embarked on a series of major trade reforms, progressively cutting tariff- and non-tariff barriers, phasing out quantitative restrictions, and easing limitations on the entry of foreign investment. Even though India is still considered a highly protected economy, progressive liberalization has produced remarkable results. The country's openness indicator has more than trebled since the late 1980s, and the economy has been expanding at a high rate, second only to China except for the recent slowdown. Exports contributed greatly in the growth in China as the share of China's exports to World exports increased almost 14 times in the last 3 decades, whereas India's export share in World exports remained flat after a slight improvement in the 1990s and 2000s period i.e., after the economic reforms including trade reforms.

The increasing openness was also due to tariff liberalization with trade openness and tariff reductions moving in opposite directions. However, following the recent global trend of protectionist measures, both simple and weighted tariffs have risen in 2018 (Figure 1).

Figure 1: India's MFN Tariffs and Trade Openness (%)



Source: Computed from WITS-TRAINS data and IMF : WEO

Recent Global Trade Situation

The pace of global economic activity remains weak after slowing sharply in the last three quarters of 2018. Rising trade and geopolitical tensions have increased uncertainty about the future of the global trading system. As per the January 2020 update of IMF's World Economic Outlook (WEO), global growth is projected to rise from an estimated 2.9 percent in 2019 to 3.3 percent in 2020 and 3.4 percent for 2021-a downward revision of 0.1 percentage points for 2019 and 2020 and 0.2 percentage points for 2021 compared to those in the October 2019 WEO. The downward revision primarily reflects negative surprises to economic activity in a few emerging market economies, notably India. The recent break out of COVID-19 could further lower global growth prospects.

As per WEO, World trade volume (goods and services) growth estimated at 3.7 per cent in 2018 is projected to grow at a lower rate of 1 per cent in 2019 and expected to improve to 2.9 per cent in 2020. Escalating trade tensions and a slowing global economy have led WTO to sharply downgrade its forecasts for trade volume growth in 2019 and 2020 to only 1.2 per cent in 2019, substantially lower than the 2.6 per cent growth forecast in April 2019 and the projected increase in 2020 is now 2.7 per cent, down from 3.0 per cent previously projected. Downside risks remain high and the 2020 projection depends on a return to more normal trade relations. Further rounds of tariffs and retaliation could produce a destructive cycle of recrimination.

Global Tariff Levels

Out of a set of 118 countries in 2018, India had the fifth highest simple average MFN tariff (17.1 per cent). Only four countries Bahamas (32.5 per cent), Egypt (19.1 per cent), Algeria (18.9 per cent), and Ethiopia (17.4 per cent) have higher average tariffs than India. However, if we compare the trade weighted average tariff for 108 countries in 2018, India ranks 21st highest (11.7 per cent). Even if we compare both simple and trade weighted average tariffs of India, with comparable economies, India's average tariff is still very high (Table 1).

Table 1: India's MFN Tariff (Simple and Weighted Average) - A Comparison with Select Countries

	MFN - Tariff							
	Simple average				Trade weighted average			
	2007	2015	2017	2018	2007	2015	2017	2018
Afghanistan	5.7	5.9*	6.5*	6.5	8.1*	6.8*	6.1*	6.1
Brazil	12.2	13.5	13.4	13.4	8.7	9.9	10.3	10.0
China	9.9	9.9	9.8	9.8	5.0	4.5	5.2	4.8
EU	5.2	5.1	5.1	5.2	3.0	2.7	3.2	3.0
India	**14.5**	**13.4**	**13.8**	**17.1**	**8.0**	**7.0**	**7.5**	**11.7**
Indonesia	6.9	6.9*	8.1	8.1	4.0	4.4*	5.3	5.4
Japan	5.1	4.0	4.0	4.4	2.0	1.9	2.5	2.4
South Korea	12.2	13.9	13.7	13.7	7.0	8.1	9.0	8.1
Malaysia	8.4	6.1*	5.6	5.6*	4.7	4.4*	4.5	4.5*

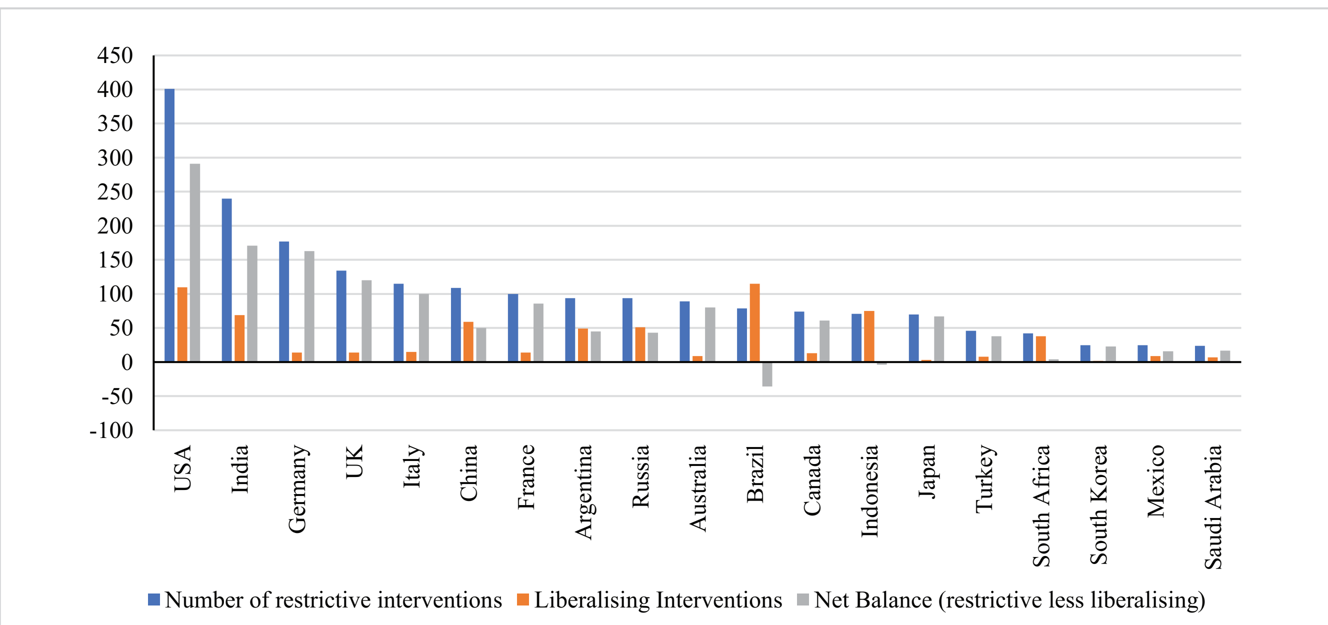
Mauritius	3.5	1.0	0.7	0.8	2.1	0.9	1.0	0.9
Pakistan	14.1	12.3	12.1*	12.1	12.8	9.9	10.9*	10.9
Philippines	6.3	6.3	6.3	6.2	4.2	4.8	6.0	5.7
Russia	11.0	7.8	6.7	6.8	11.8	8.1	5.7	5.6
Singapore	0.0	0.2	0.0	0.0	0.0	0.4	0.0	0.0
South Africa	7.8	7.6	7.6	7.7	6.4	5.7	6.6	6.5
Sri Lanka	11.0	9.3	9.3	9.3	8.0	8.2	7.0	8.6
Thailand	10.5	11.0	9.6	9.6*	4.8	6.4	6.7	6.7*
UAE	5.0	4.7	4.8	4.8	5.3	3.9	4.0	3.7
USA	3.5	3.5	3.4	3.5	2.1	2.2	2.4	2.3

Source: Compiled from WTO data. Note: * means the values of the nearest years.

Rising Protectionist Tendencies

Protectionism has been on the rise in recent years. During the last three years (2016 to 2018), among the G-20 nations, the maximum number of trade restrictiveness interventions were made by the USA followed by India, Germany, UK, Italy, and China. While in the same period, the maximum number of liberalising interventions was made by Brazil, followed by Indonesia, the USA and India. The restrictive interventions are mainly in the form of Antidumping. The liberalising interventions are mainly in the form of Import Tariff reforms and FDI relaxation (Figure 2).

Figure 2: Trade Interventions Implemented during 2016-2018



Source: Based on Global Trade Alerts (extracted from www.livemint.com)

In the case of restrictive interventions faced by economies during 2016 to 2018, India faced the second highest number of restrictive interventions from advanced G-20 economies.

Global Value Chain (GVCs) can amplify the impact of tariffs on trade and activity. Growing Protectionism which can end up in Trade Conflicts or even Trade Wars can slow the expansion of GVCs. As in many countries, in the Indian case also the foreign value added content of exports, after rising in the early 2000's remained almost flat for some years and then declined.

Recent Developments in Trade Negotiations including Tariffs

Negotiations in WTO including on tariffs are almost stalled. The twelfth Ministerial Conference of the WTO (MC12) is scheduled to be held in June 2020 in Nur-Sultan, Kazakhstan. Discussions for an outcome at MC12 are underway at various informal Ministerial meetings and regular meetings at the WTO. As per WTO TPR 2015 for India, India's tariff structure remains complex and the simple average MFN tariff rate increased during the review period. Since India's Average Tariff has suddenly increased in 2018 as per WTO data, the issue may come up for discussion in MC12.

India has bilateral trade arrangements with many major regional groupings/ countries. India has 10 Free Trade Agreements (FTAs) and 6 Preferential Trade Agreements (PTAs) which are already in force. There are as many as 22 on-going trade negotiations also. Of these some are new and some are expansions of the ones already in force. While tariff negotiations have been the major plank of FTA/ RTA Agreements, of late other areas like Investment, Services, etc. have been included in the FTA/ RTA/CECA negotiations.

Tariff Related changes in Budget 2020-21

Budget 2020-21 has also come out with some changes related to India's tariffs. While some measures are liberalising in nature, some others have been taken to counter the rising protectionism of other countries and also with the aim of 'Make in India'.

Some important changes related to tariffs in Budget 2020-21 include the incorporation of a new Chapter VAA (a new section 28DA) in the Customs Act to provide enabling provision for administering the preferential tariff treatment regime under Trade Agreements; Creation of new tariff items; review of Customs duty exemptions for certain imported goods; Changes in Customs duty for MSMEs and promoting Make in India, particularly by increasing customs duty under Phased Manufacturing Program (PMP) for Electric Vehicles and Cellular mobile phones; promoting 'Make in India' in Electronics sector and reducing customs duty on raw materials and inputs imported by domestic manufacturers in many areas.

The relatively high average MFN tariffs of India suggests the need for tariff reforms. The stalled WTO negotiations and the growing bilateral and regional agreements also call for a detailed look at the tariff policy in the context of bilateral/regional agreements. These are examined in this report.

INDIA'S TARIFF STRUCTURE: GENERAL AND SECTOR-WISE

India's Tariffs as per Different Terminologies

Tariffs or Import Duties or Customs Duties as a layman understands has many jargons and terminologies. There are some international databases that have data to compute tariffs as per different terminologies. WITS data is one such database available on a time series basis and has many features for analysis. This is mainly used in this report, though WTO, ITC and USITC and Indian tariff databases have been used wherever needed. WITS data is of 2 types: WTO based WITS data and TRAINS based WITS data. While the difference in the indices given in these two is mainly in some years, particularly for 2018, TRAINS based WITS data has a longer time series and is available even for the year 1990, the pre-reforms year. The WTO based WITS data is available only from 1996 onwards and does not have all the parameters for two recent years 2017 and 2018, though the results of this data tally well with WTO Tariff Profiles data of WTO. So, in this study, we have used a judicious mix of the different databases as per their relevance and suitability. Whichever database is taken, the results are more or less the same, though absolute values of indicators may differ, in some years in the different databases.

India's Applied MFN and Bound Tariffs

India's tariffs are in double digits with India's simple average applied MFN tariff at 17.1 percent in 2018 and trade weighted average applied MFN tariff at 11.7 percent in 2017 as per WTO World Tariff Profiles, 2019. The simple average Agricultural and Non-Agricultural MFN applied tariffs were 38.8 percent and 13.6 percent in 2018, respectively and trade weighted average tariffs were 63 percent and 8.2 percent for Agricultural and Non-Agricultural sectors in 2017, respectively. Simple average MFN tariff as per WITS-WTO data is also similar at 17.2% in 2018 while weighted average MFN tariff indicators are not available for 2018. However, WITS-TRAINS data differs particularly for 2018 with Simple average MFN tariff at 13.5 percent and trade weighted average tariff at 6.0% in 2018 (Table 2).

Table 2 : India's Applied MFN Tariffs

	WTO Tariff Profiles data			WITS-WTO data			WITS-TRAINS Data		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Simple Average									
Total	13.4	13.8	17.1	13.3	13.5	17.2	13.4	13.6	13.5
Agricultural	32.7	32.8	38.8	32.8	32.7	38.8	32.8	32.6	33.0
Non-Agricultural	10.2	10.7	13.6	9.8	9.9	13.3	10.0	10.0	10.0
Weighted Average									
Total	7.5	11.7	NA	7.5	NA	NA	7.5	6.8	6.0
Agricultural	34.8	63.0	NA	35.6	NA	NA	28.4	26.9	24.5
Non-Agricultural	5.5	8.2	NA	6.9	NA	NA	7.5	6.9	6.5

Source: Compiled from various World Tariff Profiles 2017,2018,2019 and WITS database.

Thus, India's Simple Average Applied MFN tariff which is above 10% for total, 10% or above for non-agricultural sector and above 30% for agricultural sector in 2018 is considered to be relatively high in general and with respect to Agricultural Sector in particular. The weighted average applied MFN tariffs are however much lower, particularly for non-agricultural sector and total at 6.5% and 6.0% in 2018 as per WITS-TRAINS data.

Agriculture Sector tariffs are fully bound though at a higher level, but only 70.1% of the Non-

Agricultural tariff lines are bound resulting in total bindings of only 74.3%. The simple average final bound tariff-total is 50.8%, Agricultural tariff 113.1% and Non-Agricultural tariff 36%. Whichever database is taken, India's MFN applied tariffs, both agricultural and non-agricultural are well below the bound rates.

India's Tariff Range and Imports

Range-wise distribution of India's tariff lines and imports (Table 3) shows that 4.6% tariff lines in the agricultural sector and 67.3% tariff lines in non-agricultural sector have MFN applied tariffs equal or below 10%. The respective import shares for agricultural and non-agricultural products are 3.8% and 86.2%. In the case of non-agricultural items, import values and tariff lines are more concentrated in the lower end of the tariff range, while in the case of agricultural items, they are more concentrated in the higher end of the tariff range.

Table 3 : Range-wise Distribution of India's Tariff Lines and Import Values (in Percent)

		Tariff lines and import values (in %)									NAV (in %)
Frequency distribution	**Year**	**Duty-free**	**0 <= 5**	**5 <= 10**	**<= 10**	**10 <= 15**	**15 <= 25**	**25 <= 50**	**50 <= 100**	**> 100**	
Agricultural products											
Final bound		0	0	1.3	1.3	0.3	2.0	6.9	55.5	34.1	0.3
MFN applied	2018	3.1	0	1.5	4.6	1.1	2.1	78.1	11.8	2.3	0.3
Imports	2017	0.7	0	3.1	3.8	0.4	4.6	46.3	43.3	1.6	2.9
Non-agricultural products											
Final bound		2.6	0.5	0.0	3.1	0	15.6	50.1	0.3	1.0	5.7
MFN applied	2018	1.8	4.9	60.6	67.3	9.2	16.2	6.6	0.2	0.3	5.5
Imports	2017	10.4	27.3	48.5	86.2	9.3	4.2	0.2	0.0	0.1	0.3

Source: Compiled from WTO's World Tariff Profiles, 2019

India's Applied MFN Tariffs over the Years

India's tariffs on imports were very high prior to liberalization and reforms of 1991. Taking the TRAINS based WITS data (which includes data for the pre-reforms year), the simple average MFN tariff at 2 digit level was 81.8 percent in 1990 and if the auxiliary duty of 45 percent (which was later merged with Basic Customs duty (BCD) in 1993-94) is included it crosses the 100-way mark (Table 4). In 1990, the average weighted MFN Tariff at 49.6 percent though high was much lower than the simple average MFN tariff.

WITS-WTO data also shows similar results except mainly for the year 2018 when simple average MFN tariff was 17.2%, simple average MFN industrial tariff 13.6% and simple average MFN agricultural tariff 38.8% compared to 13.5%, 10.1% and 33.0% respectively as per WITS-TRAINS data.

Table 4: India's Tariff over the years (1990 to 2018)

India's Tariffs	1990	1992	1996	1997	2000	2003	2004	2005	2006	2008	2010	2012	2015	2016	2017	2018
MFN-Simple Average																
All digit at 2 digit level	81.8	56.3	38.7	30.1	33.2	26.5	29.1	18.3	16.6	12.2	11.9	13.3	13.2	13.4	13.6	13.5
WTO HS Agricultural	83.0	48.9	38.1	30.2	38.4	36.9	37.4	37.6	34.2	32.1	31.5	33.5	32.8	32.8	32.6	33.0
WTO HS Industrial	81.7	57.5	38.8	30.1	32.4	24.8	27.9	15.4	13.9	9.2	8.8	9.8	9.7	10.0	10.0	10.1
MFN - Weighted Average																
All digit at 2 digit level	49.6	27.9	23.6	20.1	23.3	21.4	23.0	14.0	9.0	6.3	7.3	6.3	7.5	7.5	6.8	6.0
WTO HS Agricultural	50.2	27.4	33.1	23.2	32.8	58.7	61.2	55.3	42.7	15.3	45.3	47.7	41.1	28.4	26.9	24.5
WTO HS Industrial	69.0	40.2	26.6	21.9	29.2	22.1	25.0	13.1	8.9	6.1	6.0	7.0	6.9	7.5	6.9	6.8
AHS Simple Average																
All digit at 2 digit level	78.9	57.0	36.9	28.9	32.3	25.4	28.4	16.1	13.7	9.4	8.3	10.1	9.8	8.6	8.5	8.7
WTO HS Agricultural	73.3	57.4	42.7	35.0	36.8	37.1	38.8	38.7	34.0	30.9	30.7	35.9	34.1	30.7	30.7	31.0
WTO HS Industrial	79.3	57.1	36.6	28.6	32.1	24.6	27.7	14.6	12.4	8.1	6.9	8.5	8.3	7.2	7.2	7.3
AHS Weighted Average																
All digit at 2 digit level	49.6	27.9	23.6	20.1	23.3	21.4	22.9	13.9	9.0	6.1	6.1	6.3	7.3	6.3	5.8	4.9
WTO HS Agricultural	50.2	27.4	33.1	23.2	32.8	58.7	61.0	53.4	42.7	14.2	34.0	47.7	39.7	23.5	22.7	18.9
WTO HS Industrial	69.0	40.2	26.6	21.9	29.2	22.1	25.0	12.9	8.9	5.9	5.5	7.0	6.8	6.3	5.8	5.6
MFN minus AHS-Weighted																
All digit at 2 digit level	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.1	1.3	0.0	0.2	1.2	1.1	1.1
WTO HS Agricultural	0.0	0.0	0.0	0.0	0.0	0.0	0.2	1.9	0.0	1.1	11.2	0.0	1.4	4.9	4.2	5.6
WTO HS Industrial	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.6	0.0	0.1	1.2	1.1	1.2
Realised Tariffs-Basic (Ratio of Basic Custom Duty to Imports)											2.8	1.8	2.4	2.5	2.7	3.2
Realised Tariffs-Total (Ratio of Total Customs Revenues To Imports)	47.5	36.4	29.3	22.6	15.8	10.0	11.5	9.8	10.3	7.3	8.1	6.2	8.4	8.7	4.3	3.3
AHS simple Average minus Realised Tariffs - Basic	78.9	57.0	36.9	28.9	32.3	25.4	28.4	16.1	13.7	9.4	5.5	8.4	7.4	6.0	5.8	5.5
AHS simple Average minus Realised Tariffs - Total	31.4	20.6	7.5	6.3	16.5	15.3	16.9	6.2	3.4	2.1	0.2	3.9	1.3	-0.2	4.2	5.4
AHS weighted Average minus Realised Tariffs - Basic	49.6	27.9	23.6	20.1	23.3	21.4	22.9	13.9	9.0	6.1	3.3	4.5	4.9	3.8	3.1	1.7
AHS weighted Average minus Realised Tariffs - Total	2.1	-8.6	-5.8	-2.5	7.4	11.4	11.5	4.0	-1.3	-1.2	-2.1	0.1	-1.1	-2.4	1.5	1.6

Source: Compiled from WITS-TRAINS based data and DOR data. Note: Realized Tariffs both Basic and Total are for financial years (e.g. 2018 means 2018-2019). All other indicators are for calendar years.

Both simple and weighted MFN Tariff show a steady decline except for some ups and downs. While MFN applied agricultural tariff, (both simple and weighted) continued to be high, MFN applied industrial tariff (both simple and weighted) have registered steady declines.

One thing to be noted here is the relatively lower weighted average MFN tariff compared to simple average MFN tariff over the years particularly for Total and Industrial tariffs and for Agricultural tariffs in the last 3 years. This indicates that India's imports of high tariff items are lower which could also imply that high tariffs could have lowered imports of such items. However, simple average and weighted average agricultural tariffs have criss-crossed each other many times reflecting the changes in importance in imports of high vs low tariff items.

Total Duties

In usual tariff analysis only applied tariffs are used which includes only basic customs duty (BCD). But, in reality, the importer has to pay many other additional taxes/duties besides BCD. Earlier total duties included components like Special Additional Duties (SAD), Countervailing Duty (CVD), Education Cess, etc. Now SAD and CVD have been merged with IGST. Thus now, total duty includes BCD, IGST and Social Welfare Surcharge (SWS). Budget 2018 has also introduced the SWS replacing customs education cess and secondary education cess and SWS is capped at a rate of maximum 10% on import of goods. Anti-dumping and safeguard duties, if any, also have to be added.

The total duty to be paid for imports is much higher than the basic customs duty. Total duty is always higher than BCD reflecting the inclusion of IGST and SWS. For many items, the total duties are more than 10% higher and in many cases double the basic duty. For most of the non-agricultural items, the total duties are double or more than double the basic customs duty, while for most of the agricultural items, total duties are 10% or more than 10%. This is mainly due to IGST and the 10% SWS.

Thus, if total duties are considered, India's tariffs are very high for many items and indicates, that India's tariffs are higher than what is reflected in average MFN duties including only BCD. Nevertheless, the absolute numbers should be used only to gauge the general trend.

However, it needs to be noted that for IGST paid, Input Tax Credit (ITC) can be claimed and the ITC could be used to pay taxes such as CGST/SGST/IGST. However, the importer cannot get credit for BCD and SWS. Thus, it is mainly SWS which is an additional burden besides the rigmarole of paying IGST and then claiming credit for it. High IGST on imports of consumer goods can be more protective if the importer is a final user and cannot claim ITC.

While other countries also have GST/VAT/Sales Tax on their imports besides customs duties, the difference is in rates. While generally, it is in the range of 10%-20% and comparable to India's (5%, 12%, 18%, 28%) averaging around 15.8%, in many Gulf countries it is zero percent and in important trading partners of India it is low as in Singapore (7%), Indonesia (10%), Australia (10%), Japan (8%), Thailand (7%), USA (2.9%-7.25%).

Effectively Applied Tariffs over the years

The effectively applied tariff is defined as the lowest available tariff. If a preferential tariff exists it is used as effectively applied tariffs, otherwise the MFN applied tariff is used. In 2018, while India's simple average MFN applied tariff is 13.5%, its simple average effectively applied tariff is just 8.7%. The weighted average effectively Applied Tariffs (AHS) is still lower than simple average effectively applied tariff and at 4.9% in 2018. The difference between weighted average MFN and AHS is relatively higher for Agricultural items. Weighted average effectively applied tariff for Agricultural sector is 18.9% in 2018 compared to 24.5% weighted average MFN applied tariffs. Effective tariff (weighted) for industrial sector is just 5.6%. Thus, due to the different Preferential arrangements, India's tariffs are much lower than they are believed to be as reflected in the Effective tariffs.

Realized Tariffs over the years

Another indicator of tariffs is Realized Tariffs. The ratio of customs revenue collections to Imports gives the Realized tariffs. This covers all exemptions under FTAs and under different schemes of the Government, etc.

While the customs (BCD) revenue foregone in 2018-19 on account of conditional BCD exemptions (Rs. 34375 crore) and export linked incentive schemes (Rs. 41018 crore) totals to Rs. 75,753 crores, the unconditional exemptions are an additional Rs. 129622 crore of which FTA/RTA exemptions is Rs. 48793 crores.

However, for the purpose of computing Realized Tariffs we are concerned with only the customs revenue collections as a percentage of total imports which is obtained after all types of exemptions are deducted and thus does not distinguish between the type of exemptions.

Here there are two indicators-Realized Tariffs (Basic) given by the ratio of Basic customs revenue to imports and Realized Tariffs (Total) given by the ratio of Total Customs Revenue to imports. Realized Tariffs (Basic) covers only BCD collections while Realized Tariffs (Total) covers other collections as well. Realized Tariffs (Basic) is compatible with all the other indicators of tariffs which also reflect Basic customs duty.

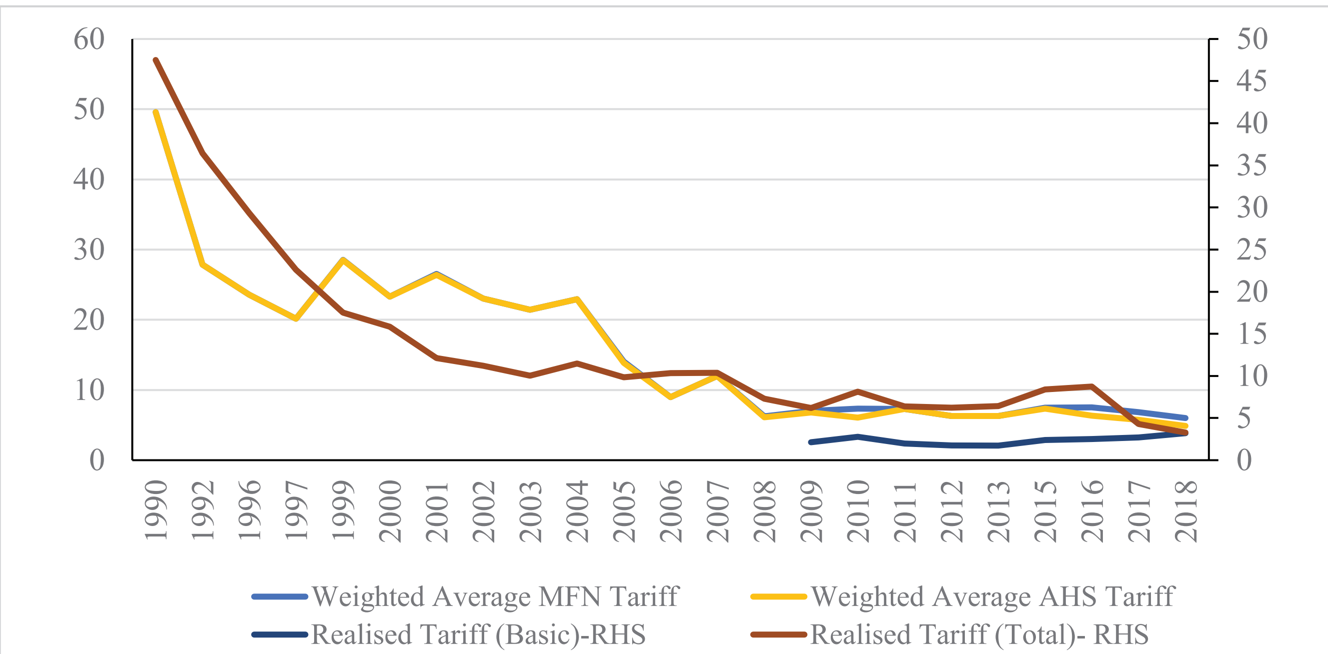
Realized Tariffs (Basic) is much lower than even the Effectively Applied Tariffs (AHS). In 2018 realized tariff (BCD) was 3.2 per cent compared to the weighted average Effectively Applied Tariffs (AHS) of 4.9 percent, simple average AHS of 8.7 (13.5) percent and much lower than the weighted average MFN tariffs of 6 percent and Simple Average MFN Tariffs of 13.5 (17.2 percent) (Figures in parenthesis gives the indicator using WITS-WTO data and figures outside are from WITS-TRAINS data). There is, in fact, a difference of 5.5 percentage points between AHS simple average and Realized Tariffs (BCD), 1.7 percentage points difference between AHS weighted average and Realized Tariffs (BCD) in 2018. The exemptions to FTAs/RTAs, conditional BCD exemptions and export linked incentive schemes particularly Merchandise Exports from India Scheme (MEIS) have contributed greatly to the low Realized Tariffs (Basic).

A similar indicator for the US giving the percentage share of total customs duty collected to total imports is 1.6% in 2018 and 1.4% in 2017. Thus, India's Realized Tariffs are not much higher than that of US. However, the US Realized Tariffs is only slightly lower than its average weighted MFN tariff of 2.3% in 2017, while India's is not.

India's Different Types of Tariffs : A Sum-up

The movement of India's import tariffs over the years as per different terminologies can be seen in the following figures. As can be seen from the Figure 3A, India's average weighted MFN tariff-total shows a falling trend over the years and overlaps average weighted Effective Tariffs (AHS) till 2015 after which there is a slight divergence with Effective tariffs being lower than MFN Tariffs clearly indicating the Tariff concessions to FTAs/RTAs. Realized Tariffs (Total) though falling and always lower than simple average MFN tariff and also simple average Effective Tariff except for one year, has criss-crossed or been in tandem with weighted average MFN tariff and weighted average Effective tariff for many years. However, in 2018 it is lower than all the above mentioned indicators. Realized Tariff (basic) for which data are available only since 2010 has the lowest rate ranging from 1.8% to 3.2% over the years. In 2018 it was 3.2%.

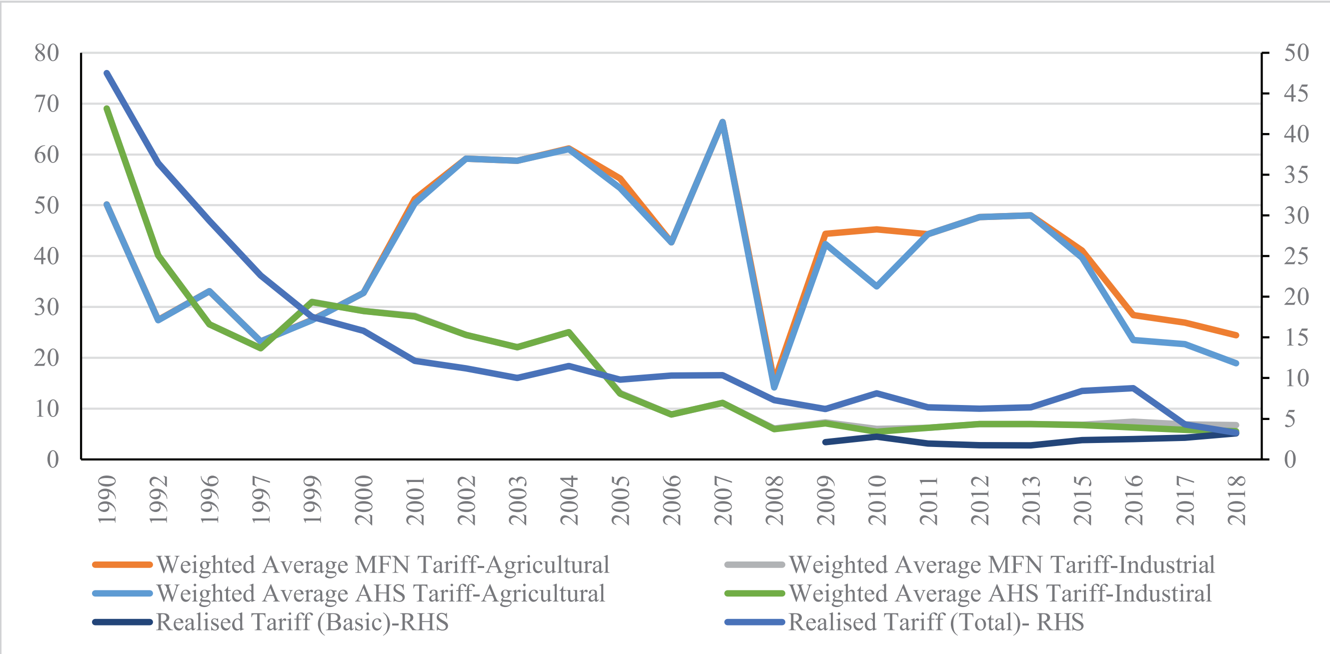
Figure 3A: India's Tariffs as per Different Terminologies 1990-2018 (%)



Source: WITS-TRAINS and Department of Revenue, Govt. of India (for Realized Tariffs)

Figure 3B shows that average weighted MFN Agricultural tariffs and Average Weighted AHS Agricultural Tariffs are moving together and almost overlapping except in 2010 when Effective Tariffs (AHS) fell suddenly possibly showing the impact of SAFTA and ASEAN (where Agri items are important in Tariff concessions) and after 2015, showing the effect of new FTAs with Japan, Korea, Malaysia along with earlier FTAs. In the case of industrial Tariffs, both MFN and AHS are overlapping each other and showing a smooth downward trend. Only in recent years after 2015, Effective Tariffs are slightly lower showing the effect of new FTAs like Japan, Korea along with Singapore where Industrial Tariffs have been lowered. One thing to be observed is that the Industrial Tariffs have been falling all along and is much lower than Agricultural Tariffs as per all the indicators.

Figure 3B: India's Industrial and Agricultural Tariffs as per Different Terminologies 1990-2018 (%)



Source: WITS-TRAINS

It is to be noted that for many items already under RTAs/FTAs duties have been lowered. In fact, the AHS for many items with MFN tariffs at and above 10% are low and even below 10% due to preferential tariffs, etc. In most of the FTAs/RTAs, the share of preferential imports in total imports from that FTA/RTA by India is very high at above 80%-90%. Thus, for a majority of the items already preferential tariffs apply for the FTA/RTA countries and if MFN tariffs can be lowered to or near the effective tariffs (AHS) levels, India's MFN tariffs for majority of non-agricultural items will be below 10%. In fact the share of total preferential imports of India to total imports is 17% in 2018. Thus, there is scope for rationalizing tariffs at least near the AHS tariffs.

The above analysis indicates that India's tariffs on imports are much lower than they appear to be. This has important implications for policymaking. Due to Preferential tariffs and various concessions and rebates under the different schemes, Effectively applied tariffs and Realized tariffs are much lower. While India's current applied tariffs are well below the WTO bound tariffs, there is much scope for reducing the tariffs as indicated by the effectively applied average tariffs and also by the realized tariffs based on customs revenue collection. This can also give India an extra millage in trade negotiations.

Import Tariffs on India's Exports in Major Markets of India

The top 5 destinations of India's exports of Agricultural items are EU, US, UAE, Saudi Arabia and Nepal; and of Non-Agricultural items are USA, EU, Hong Kong, UAE & China.

Among the Top 5 destinations of India's Agricultural Exports, ironically, India faces the highest MFN tariffs both simple and weighted in its FTA partner country-Nepal. Also, ironically, tariffs both simple and weighted, for India's Agri exports are the lowest in the US market (among the top 5 destinations) for which country, India has levied retaliatory tariffs for many Agri items. European Union has the second highest simple average MFN tariffs among the Top 5, though weighted tariff is relatively low. Preference margin (weighted) which is the difference between the duty paid on an MFN basis and duty paid under a preferential system, is also relatively higher in EU than other markets in the top 5. India also benefits from substantial duty-free imports in 70.8% of Tariff lines covering 79.8% of imports of US from India. The Withdrawal of GSP by US in June 2019 could have altered these numbers. In UAE, Saudi Arabia and also EU Markets, India benefits from high duty-free imports in terms of share of imports only, while in terms of Tariff lines such concessions are relatively less.

In the case of Non-agricultural products among the top 5 markets, India faces highest simple average tariff and weighted tariff in Chinese market followed by EU. The preference margin is also relatively high in China. The coverage of duty free imports is however, less at 7.7% in terms of tariff lines and 33.7% in terms of import share. India faces 0 tariffs in Hong Kong where imports are 100% duty free. Other than Hong Kong, US market is the one in which India benefits from a high percentage of duty-free items, both in terms of tariff lines (69.7%) and in terms of share of imports (69.4%). In the EU market, India enjoys from relatively higher preference margins and also duty-free imports both in terms of tariff lines (49.9%) and in terms of import share (52.7%)

Tariffs in Select Trading Partner Countries: A Comparative Analysis

A comparison of Tariffs of India with 27 Select Countries including some developed and some developing countries, some countries from ASEAN, some from SAARC, some BRICS Countries, some from Gulf region and some from LAC shows that India has the highest tariffs in terms of simple average MFN applied tariffs (at 17.1 percent) and third highest in terms of trade weighted average MFN applied tariffs (at 11.7 percent). The other countries with double digit or near to double digit simple average MFN applied tariffs are Argentina (13.6%), Bangladesh (14.0%), Brazil (13.4%), China (9.8%), Republic of Korea (13.7%), Nepal (12.1%), Sri Lanka (9.3%), Thailand (9.6%) and Vietnam (9.5%). In terms of Trade weighted average MFN applied tariffs, the other countries with double digit or near to double digit tariffs are Argentina (14.8%), China (10.0%) and Nepal (13.4%).

In the Agriculture sector, while tariffs are relatively high for many countries, India has the third highest simple average MFN applied tariffs (38.8 percent) with Republic of Korea having the highest (57 percent) followed by Norway (44.9 percent). A total of 16 Countries/Country Groupings out of 27 have double digit tariffs. In terms of trade weighted average MFN applied tariffs, after Republic of Korea (79.3 percent), India has the second highest tariff (63 percent) followed by Norway (27.9 percent), Sri Lanka (30.9 percent) and Switzerland (26.6 percent).

In the case of Non-Agricultural Sector, while for many of the developed countries, tariffs are very low (less than 5 percent), India has the third highest simple average MFN applied tariffs at (13.6 percent) after Argentina (14.2 percent) and Brazil (13.9 percent) and is closely followed by Bangladesh (13.4 percent) and Nepal (11.8 percent). In terms of Trade weighted average MFN applied tariffs, India is the fourth highest (8.2 percent) after Argentina (14.9 percent), Nepal (13.3 percent) and Brazil (9.8 percent).

Thus, the comparative statement shows that India is among the top high-tariff countries in terms of both Agricultural, Non-Agricultural and Total (Agri + Non-Agri) tariffs. Hong Kong and Singapore which are free ports have zero or near zero tariffs. Trade Weighted average MFN applied tariffs are relatively lower than simple average MFN applied tariffs for most of the countries including India. While India's overall applied tariffs are high, it is mainly due to relatively higher agricultural tariffs. However, higher agricultural tariffs both bound and applied should be viewed from a historical perspective as well as livelihood concerns.

A comparison of the import tariffs of the select 27 countries, with the tariffs faced by them in major markets, shows that generally developing countries face relatively lower tariffs in their export markets compared to the tariff for their imports as indicated by the applied weighted MFN tariffs. This, however, does not consider the preferential tariffs which many developing countries enjoy in their export markets.

India's Tariffs : Sector-Wise

Bound, MFN and Effective Tariffs: Sector-Wise

India's Agricultural tariffs are nearly three times and eight times higher than Non-Agricultural tariffs in terms of the Simple average MFN applied tariffs and the Trade weighted MFN applied tariffs respectively. However, there are large differences in sub-sectors.

As can be seen from Table 5, Average Bound tariffs are in three digits for most of the Agriculture subsectors with a binding coverage of 100%. Average MFN applied duty is the highest for Beverages and Tobacco (74.7 percent), followed by Coffee, Tea (56.3 percent), Oilseeds, fats and oils (54.1 percent) which is the topmost agricultural import category. The second highest agricultural import category Fruits, Vegetables and Plants also has a relatively high average MFN applied duty of 32.4%. The lowest average tariff among the Agriculture categories is for Cotton (26 percent) and other agricultural products (29 percent). In the case of Non-Agricultural items, Average Bound tariffs are in three digits only for Fish and Fish products. For all others, it is in the range of 27.8% to 39.6%.

Average MFN applied tariffs are lowest for two major imports, namely Non-Electrical machinery (7.8%) and Electrical machinery (8.8%). It is also in the range of 9-10% in the case of other major imports like minerals and metals, Petroleum and Chemicals, while it is the highest for transport equipment (31.1%) followed by Fish & Fish products (30%). It is also relatively high in textiles (20.7%) and Clothing (20.5%), while it is at 12.1% for Leather, footwear, etc.

Table 5 : India's Tariffs by product groups

Product groups	Final bound duties				MFN applied duties			Imports	
	AVG	Duty-free in %	Max	Binding in %	AVG	Duty-free in %	Max	Share in %	Duty-free in %
Agriculture									
Animal products	104.5	0	150	100	32.5	0	100	0.0	0
Dairy products	63.8	0	150	100	34.8	0	60	0.0	0
Fruit, vegetables, plants	101.1	0	150	100	32.4	0	105	1.8	0
Coffee, tea	133.1	0	150	100	56.3	0	100	0.1	0
Cereals & preparations	114.1	0	150	100	37.1	13.2	150	0.4	3.7
Oilseeds, fats & oils	165.1	0	300	100	54.1	1.2	100	2.9	0.6
Sugars and confectionery	126.2	0	150	100	51.5	0	100	0.3	0
Beverages & tobacco	120.4	0	150	100	74.7	0.3	150	0.2	0
Cotton	110	0	150	100	26	0	30	0.2	0
Other agricultural products	105.6	0	150	100	29	7.4	70	0.5	2.3
Non Agricultural									
Fish & fish products	135.7	0	150	24.6	30	0	30	0.0	0
Minerals & metals	38.3	0.4	55	61.5	11	0.2	40	33.9	13.2
Chemicals	39.6	0.1	150	88.9	10.1	0.2	100	10.6	0.5
Wood, paper, etc.	36.4	0	47	64.4	10	2.5	20	2.0	0.4
Textiles	27.1	0	88	70.3	20.7	0	88	1.2	0
Clothing	37.7	0	70	58.7	20.5	0	70	0.2	0
Leather, footwear, etc.	34.6	0	40	51.6	12.1	0	70	1.0	0
Non-electrical machinery	28.6	6.3	40	95.4	7.8	3.7	15	8.3	20.8
Electrical machinery	27.8	24.6	40	93.5	8.8	15.2	20	10.4	27.2
Transport equipment	35.7	0	40	70.6	31.1	0	125	3.3	0
Manufactures, n.e.s.	33.5	14.5	40	43.5	11.1	4.1	25	2.9	22.6
Petroleum	**-**	**-**	**-**	**0**	**9.2**	**0**	**10**	**19.8**	**0**

Source: WTO's World Tariff Profiles, 2019

Further detailed, sector-wise analysis by taking average tariffs at 2 digit level both MFN and Effective tariffs (AHS) has also been done which shows the following:

In the case of Agricultural items, the simple average MFN tariffs are in the range of 20-35% for most of the 2 digit codes, except Beverages, Spirits and Vinegar (111.3 %), Coffee, Tea, Mate and Spices (52.45%), Sugars and Sugar confectionery (47.65%) and Miscellaneous Edible preparations (37.5%). The effectively applied Tariffs (AHS) is only slightly lower for most of the codes under Agricultural sector both for Simple average and Weighted average.

In the case of Non-Agricultural items, covering codes 25 to 97 including POL items and Fish and Crustaceans, etc. (Code 03), the simple average applied MFN tariffs are above 10% for Essential Oils and Resinoids, etc.; Soap organic surface-active agents, etc.; Albuminoidal Substances, etc.; Rubber and articles; Paper and Paperboard, etc., Silk; Cotton; Man-made filaments; Man-made staple fibres; Wadding, Felt and Non-Wovens, etc.; Carpets, etc.; special woven fabrics, etc.; knitted & Crocheted fabrics; articles of apparel & clothing, etc., knit and also non-knit; other made-up textiles; footwear, gaiters and the like; Natural or cultured pearls, etc.; vehicles other than railways, etc.; ships, boats, etc.; and toys, games sports items, etc. The effectively applied tariffs (AHS) are slightly lower for non-agricultural items also. Thus, a majority of the items in the Non-Agricultural sector are textiles items that have tariffs of 10% or above. Some chemicals, vehicles other than railways or tramways, articles of leather, natural or cultured pearls also have above 10% tariff, but AHS is relatively lower. The weighted average MFN tariffs also show almost similar results. Effective tariffs both simple and weighted are lower than MFN tariffs.

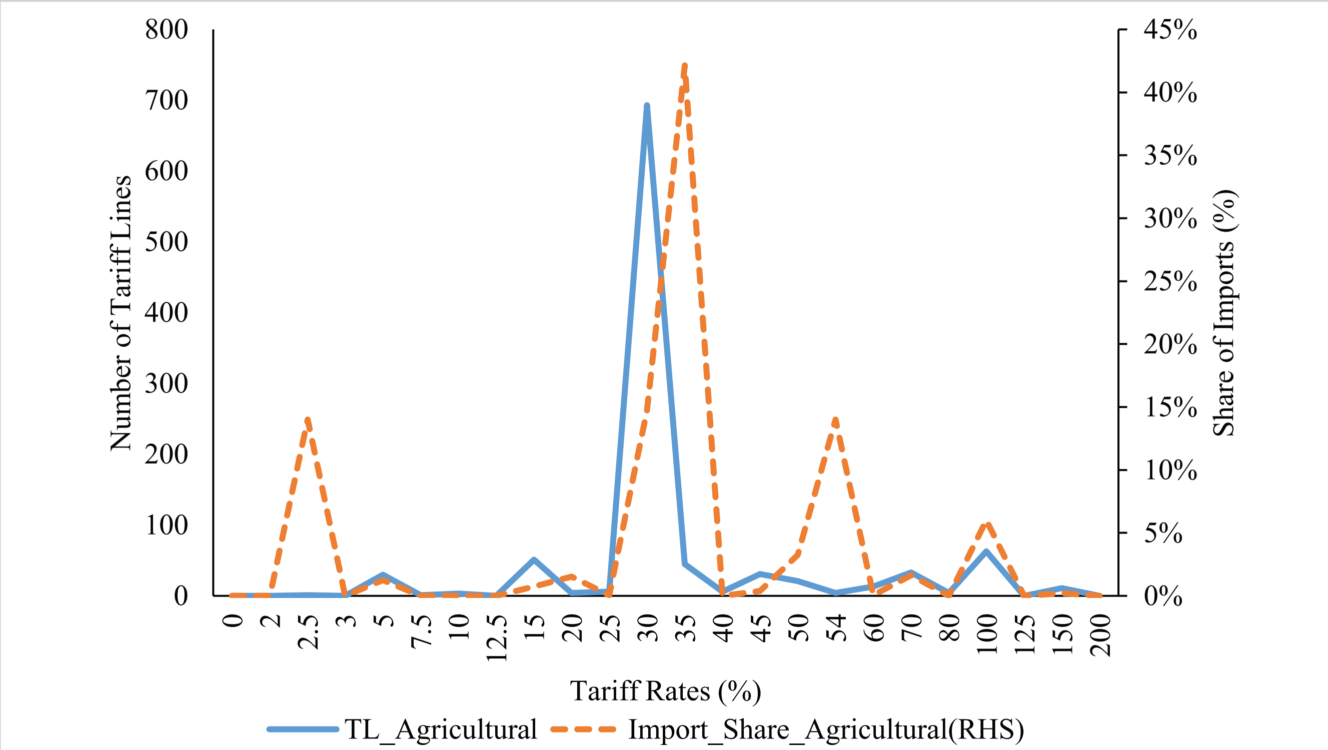
Realized Tariffs: Sector-Wise

While sector-wise customs revenue collection data are not available for recent years, earlier studies indicates that the low realized tariffs are due to the large duty concessions and exemptions given in sectors like machinery including electrical machinery, POL items, organic chemicals, plastics & articles, iron & steel items, metals, aircrafts & vessels, gold, opticals and photographic items. In 2015-16 except for Beverages and spirits, etc. and Motor Vehicles and Parts, all other codes have a Basic customs revenue collection rate (Realized Tariffs-Basic) of less than 10%. Data to analyse Sector-wise Realised tariffs are not available in the public domain now.

India’s Tariff Rates – Sector-wise

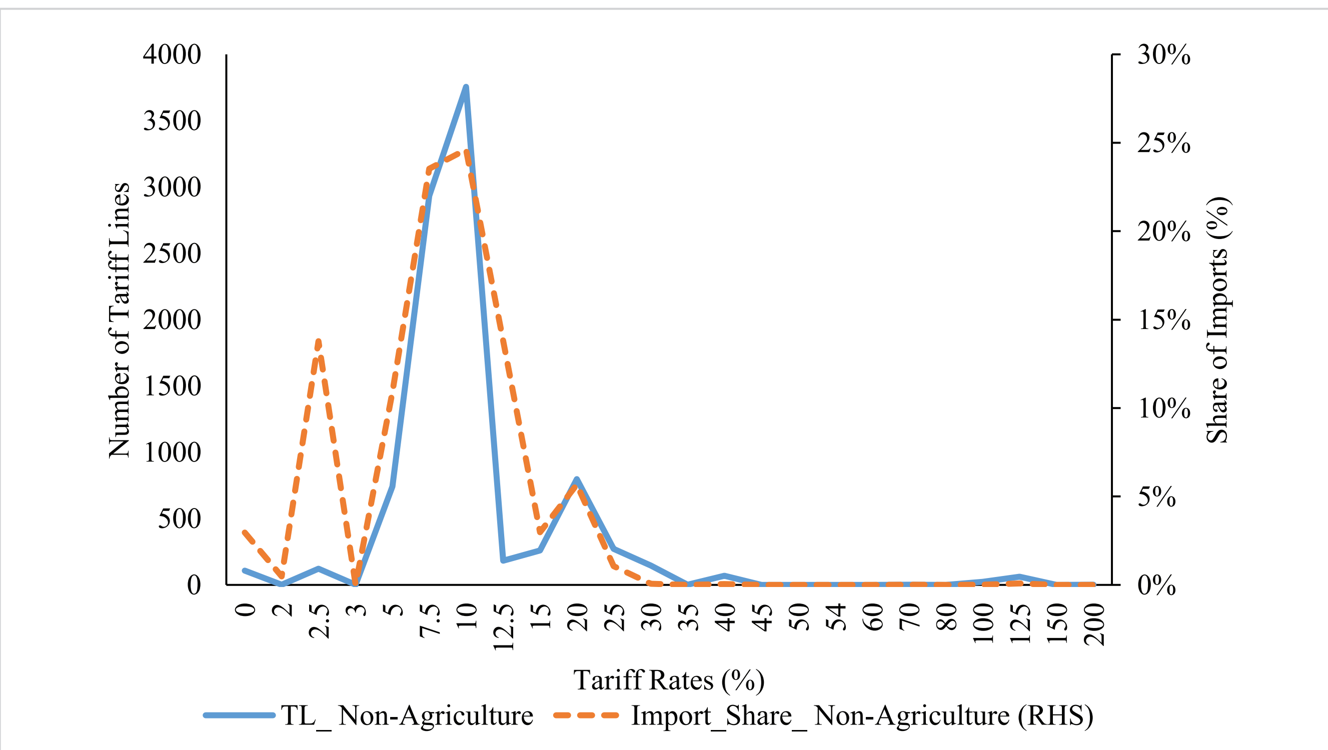
One important aspect that has been pointed out about India’s Tariff structure is the many Tariff rates. While Peak Tariff rates of India have fallen to 10%, Tariff rates continue to be many. India still has 24 ad valorem tariff rates including the zero-duty rate covering 11839 Tariff lines. While Agricultural sector has 19 Tariff rates covering 1432 Tariff lines, non-agricultural sector has 18 rates covering 10407 Tariff lines. The Tariff rates of Agricultural sector are top-heavy (15-150 range), while Tariff rates of non-agricultural sector are bottom-heavy (0-30 range). Maximum Tariff lines are in the Tariff rate of 30% for agricultural sector, while that of non-agricultural sector is in the 10%, 7.5%, 20% and 5% rates. Thus, the modal tariff rate in agricultural sector is 30% and the most appearing tariff rates in non-agricultural sector are 10% & 7.5% followed by 20% (Figure 4 A & B).

Figure 4 A: Dispersion of India's Tariff Rates 2019-20- Agricultural



Source: Author's computation based on data extracted from Custada.in for tariff data and DoC for import data.

Figure 4 B: Dispersion of India's Tariff Rates 2019-20- Non-Agricultural



Source: Author's computation based on data extracted from Custada.in for tariff data and DoC for import data.

There are 4 Tariff rates in agricultural sector and 6 Tariff rates in non-agricultural sector with tariff rates below 10% (i.e., single digit tariffs). These are cases to be examined for rationalization in terms of number of tariff rates. Even some tariff rates at the upper end can be merged. In import value terms they cover 12.25% of agricultural imports and 53.62% of non-agricultural imports. Merging some Tariff rates at the tail ends (upper and lower range) where the frequency of items is less can easily reduce the number of Tariff rates (Agri & Non-Agri) at one shot without affecting many tariff lines.

There are 1379 Tariff lines in Agricultural sector and 6384 in non-agricultural sector with Tariff rates at and above 10%. Thus, 96.3% of Tariff lines in Agricultural sector, 61.3% in Non-Agricultural sector and 65.6% in Total have tariff rates at and above 10%. In terms of import share, 87.7% of Tariff lines in Agricultural sector, 46.4% in non-agricultural sector and 48.0% in total (Agri & Non-Agri) have 10% and above tariffs. However, at the borderline tariff rate of 10% itself, there are 33.8% of tariff lines with 22.81% share in imports. Of this, 0.9% and 38.3% of tariff lines are in Agricultural and Non-Agricultural sectors with 1.4% and 23.7% share in imports respectively.

If we exclude items with a 10% tariff rate, and take only the items at above 10% rate then the total number of tariff lines in agricultural sector, industrial sector and total will be 95.4%, 23.0% and 31.8%. Their import shares will be 86.4% in Agricultural, 22.7% in non-agricultural and 25.2% in total (Table 6). Thus, there are a large number of non-agricultural tariff lines (38.3%) with a substantial share in imports (23.7%) at the borderline of 10% also. The items with above 10% tariff rates have given India the tag of a high Tariff economy. Thus, it is these Tariff lines that need to be examined for rationalization in terms of level of tariffs. The border line items in non-agricultural sector with 10% tariff should also be considered for rationalization.Therefore, there is scope to reduce not only tariffs, but also reduce tariff rates particularly in the non-agricultural sector.

Table 6: Tariff Rates 10%, >= 10% and > 10% : Share of Number of Tariff Lines and Imports in 2018-19

Tariff Rates	Share of Number of Tariff Lines (%)			Share to Imports (%) (for only tariff items whose BCD is available)		
	Agricultural Items	Non-Agriculture	Total Tariff Lines	Agricultural Items (2HS code from 1 to 24 excluding 3)	Non-Agriculture	For Total Tariff items
10%	0.9	38.3	33.8	1.4	23.7	22.8
10 % and above	96.3	61.3	65.6	87.7	46.4	48.0
Above 10%	95.4	23.0	31.8	86.4	22.7	25.2

Source: Author's computation based on data extracted from Custada.in for tariff data and DoC for import data.

Note: Items for only Basic Custom Duty (AV and NTFN) were taken. Imports share is only for those whose BCD is given, rest are excluded. Agricultural items mean all items code from 01 to 24 at 2HS excluding 03. Rest of the 2HS codes other than Agricultural items are Non-agricultural products.

One thing to be noted is that we have not taken non-ad valorem rates. If both ad Valorem and ad Valorem equivalent rates are taken, then there will be 252 distinct tariff rates in 2018 and many in decimals. This is because when specific duties are converted to ad Valorem equivalents, tariff rates will be in decimals.

India's Tariffs by Stages of Processing

India's tariffs by stages of processing as per different tariff terminologies show that in 2018 MFN simple tariffs are low for capital goods (8.3%) and intermediate goods (10.4%). It is high for consumer goods (16.6%) and raw materials (20.6%). Simple average MFN tariffs have fallen drastically over the years for capital goods, intermediate goods and even consumer goods. Simple average Effective tariffs (AHS) are much lower than MFN tariffs in 2018 and are lowest for capital goods and intermediate goods indicating the effect of Preferential Tariffs. Weighted average MFN tariffs in 2018 have fallen from the high levels in 1999 and 2005 and are very low and in fact, the lowest for raw materials (2.6%) in 2018, followed by capital goods (5.3%) and intermediate goods (8.6%). Thus, there has been a drastic fall in MFN rates on items at all stages of processing and particularly raw materials.

The fact that the weighted averages are much lower than simple averages indicates that despite many tariff lines under raw materials having relatively higher duties, high import value raw materials have a very low duty. Weighted average effective tariffs are slightly lower for all the four stages of processing in 2018, indicating the effect of Preferential Tariffs. Thus, even without Preferential Tariffs, India's import tariff structure is helpful for domestic production and Make in India. However, there is a need to ensure that raw materials have lower duties even in terms of simple average which means tariff line- wise duties need to be lowered at least up to effective tariff level except for any sensitive agricultural items. This will also help in addressing the Inverted duty structure.

The tariffs on imports from India by the World shows that in 2018, the simple average MFN tariffs of the World on imports at all stages of processing are much lower than that of India's tariffs on imports from the World at different stages of processing. It is particularly lower for capital goods, intermediate goods and raw materials. Weighted average MFN tariff is still lower and the lowest for intermediate goods (3.26%), followed by Capital goods (3.94%), but for raw materials, it is at 6.17% and almost the same as the simple average. Thus, a large value of intermediate goods imports of the world from India has low MFN tariffs. Effective tariffs are only slightly lower in all stages of processing both for simple and weighted average.

Thus, while the tariff structure of the world has helped in India's exports of Intermediate goods and even Capital goods, India's tariff structure on imports from the world has helped in the import of low tariffed raw materials with higher weightage in the import basket of India, despite many raw materials having high tariffs in India.

Thus, any policy of rationalization of tariff should simplify the tariff structure by reducing the tariffs wherever possible along with reducing the number of tariff rates, and reducing

the rates of IGST which can also help in reducing total duties. SWS on imports needs to be removed as it further adds to tariff protection. While tariff rates below 10% can be considered for merging to help reduce the number of tariff rates, the tariff lines with 10% or above 10% tariff rate needs to be considered for rationalization of both the number of rates and level of tariffs. However, care should be taken in the case of sensitive items and those items affecting livelihood concerns particularly in agricultural sector. The tariff structure of India should also help in the import of raw materials by reducing tariffs of as many raw material tariff lines as possible, instead of the present structure where tariffs are low for only high weighted raw materials imported by India.

TARIFF ESCALATIONS/TARIFF WARS: IMPACT OF US-CHINA TRADE WAR AND US-INDIA TRADE CONFLICT

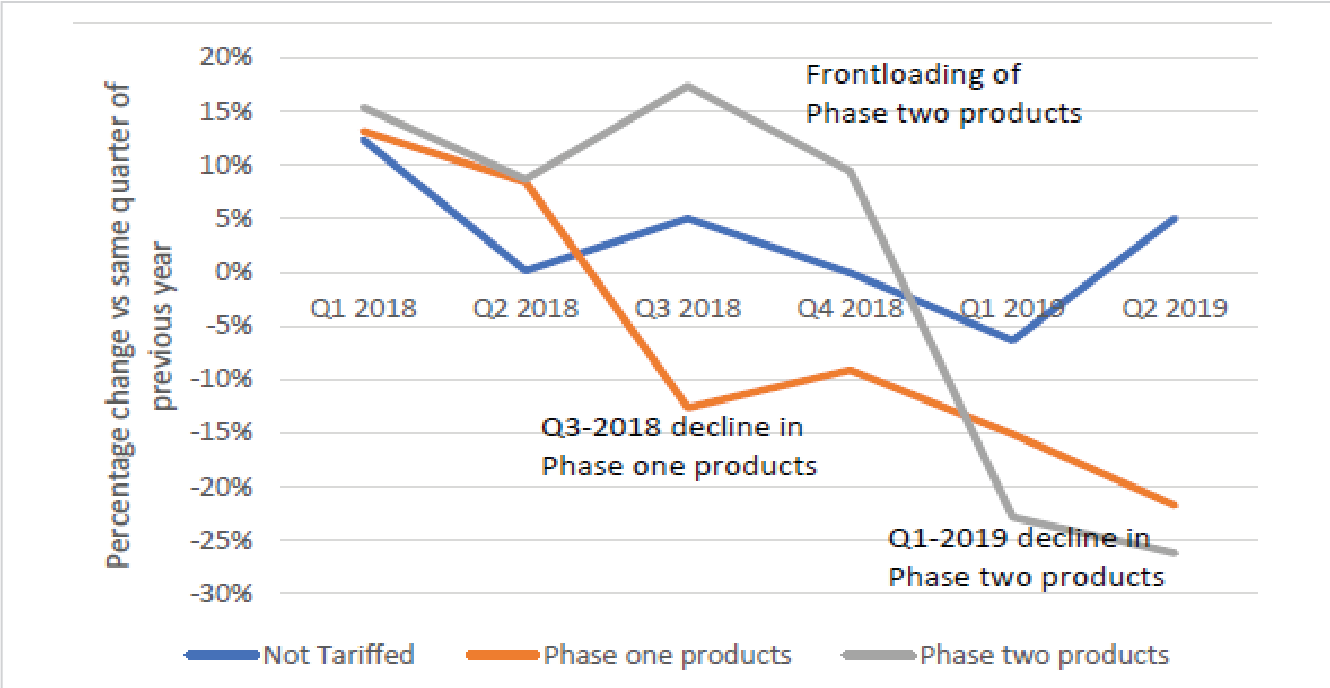
Since the US passing the Smoot-Hawley Tariff Act in 1930 raising U.S. import tariffs to protect American businesses from foreign competition which resulted in the Great Depression to the recent US - China Tariff war in 2018-19, there have been many Trade/Tariff Wars and Conflicts.

US Trade War with China and Impact on India

The United States administration started implementing a series of trade measures aimed at curtailing imports, first targeting specific products (steel, aluminum, solar panels and washing machines) and then specifically targeting imports from China. The first phase of the United States-China trade confrontation occurred in the early summer of 2018 when the United States and China raised tariffs on about US$ 50 billion of each other's goods. United States administration introduced additional tariffs in September 2018 to cover US$ 200 billion of Chinese imports, to which China retaliated by imposing tariffs on imports from the United States worth an additional US$ 60 billion. While these tariffs were initially due to increase from 10 to 25 percent in January 2019, in early December 2018 the parties agreed to hold off any retaliatory actions until March 2019. This truce held until June 2019 when the United States went ahead with the planned increase in tariffs from 10 percent to 25 percent, to which China responded by raising the tariffs on a subset of the products which were already subject to tariffs. The retaliation further escalated in September 2019 when the United States imposed 15 percent tariffs on a large subset of the remaining US$ 300 billion of imports from China not yet subject to tariffs. Thus, the US tariffs applied exclusively to Chinese goods totaled to $550 billion. China also applied tariffs on US goods to the tune of US$185 billion.

The findings in a UNCTAD research paper indicate, that United States tariffs against China have resulted in a reduction in imports of the tariffed products by more than 25 percent (Figure 5). US imports from China started to decline soon after the imposition of the tariffs, especially for products covered under phase 1, while for products covered under phase 2, the decline started in the first quarter of 2019. Imports of non-tariffed items were more stable and increased during Q2 2019.

Figure 5: US Imports from China of Tariffed Products (Percentage Change)



Source: UNCTAD Research Paper No.37 2019/9

The analysis also finds out that China's export losses in the United States have resulted in trade diversion effects to the advantage of Taiwan Province of China, Mexico, the European Union and Vietnam among others.

The US tariffs on China led to additional exports to US in H1 2019 from Taiwan (US$ 4.2 billion), Mexico (US$ 3.5 billion), European Union (US$ 2.7 billion), Viet Nam (US$ 2.6 billion) and Republic of Korea, Canada, and India (between US$ 0.9 and 1.5 billion). For India, the main benefits of trade diversion were in Chemicals and Metals & Ores.

US-China trade war also benefited India's exports of Leather and Leather products to US as indicated by the stakeholders. In some cases, the benefits are only in the US market and in some other cases in China as well, though limited.

While the US-China Trade War has affected each other and also other countries including India, the war seems to be coming to an end. On January 15, 2020, China and US signed the phase one deal with US reducing tariffs initially set from 15 to 7.5% on US$ 120 billion worth of Chinese products and China agreeing to purchase at least an additional US$ 200 billion worth of US goods and services over the next two years above a baseline of US$ 186 billion, purchases in 2017. The tag of 'currency manipulator' was also removed from China. However, we have to wait and see the full blueprint of the recent understanding between the US and China.

Tariff Escalations between US and India: Impact

The simmering trade tensions between India and USA came to the open in 2018 and 2019 when two policies of the US triggered the Indo-US trade conflict. The first was the imposition of a global tariff on steel and an additional tariff on aluminum, though not exclusively against India, directed at countries like India and China. The second policy of withdrawal of GSP benefits in June 2019 from India was exclusively directed at India. These actions met with counteraction from India in the form of retaliatory Tariffs on US imports by India in June 2019. These actions and counteractions have far reaching consequences on Indo-US Trade. To see the impact of tariff escalations between US and India, some exercises have been done in this study using different databases.

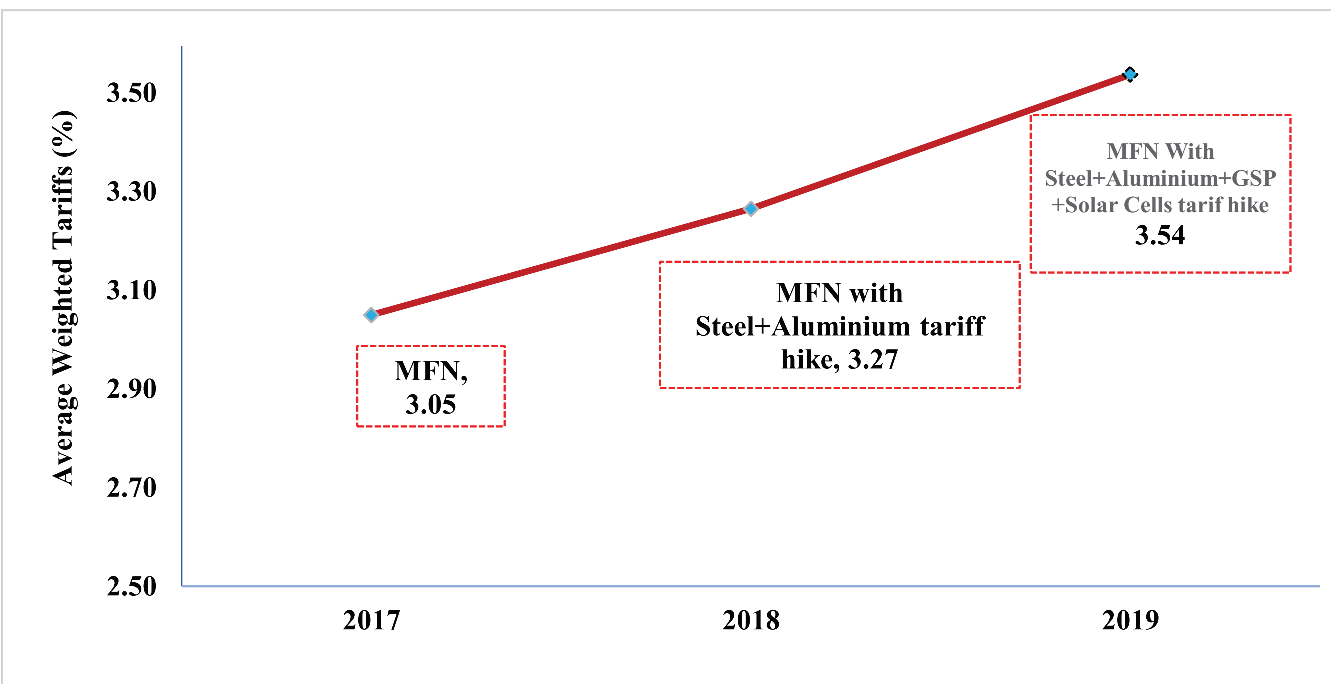
US Tariff Escalations on India

Recently on March 23, 2018, the US imposed global tariffs on steel imports of 25% and additional tariffs on Aluminum imports of 10% under Section 232 of US Trade Expansion Act 1962 which is the 1st phase of tariff escalations.

The 2nd phase of tariff escalation between India and US which was more direct on India, was when GSP benefits were withdrawn from India on June 5, 2019. The US withdrawal of GSP benefits from India triggered the tariff measures imposed on Solar Cells and Panels which were now also applicable to India.

The effect of these two phases of tariff escalations is given in Figure 6. Due to the Phase 1 tariff escalations, average weighted tariffs for all US imports from India increased from 3.05 percent in 2017 to 3.27 percent in 2018. Further tariff escalations in Phase 2 resulted in average weighted tariffs increasing to 3.54 percent in 2019.

Figure 6: US Tariff Escalations: Impact on Tariffs on US Imports from India

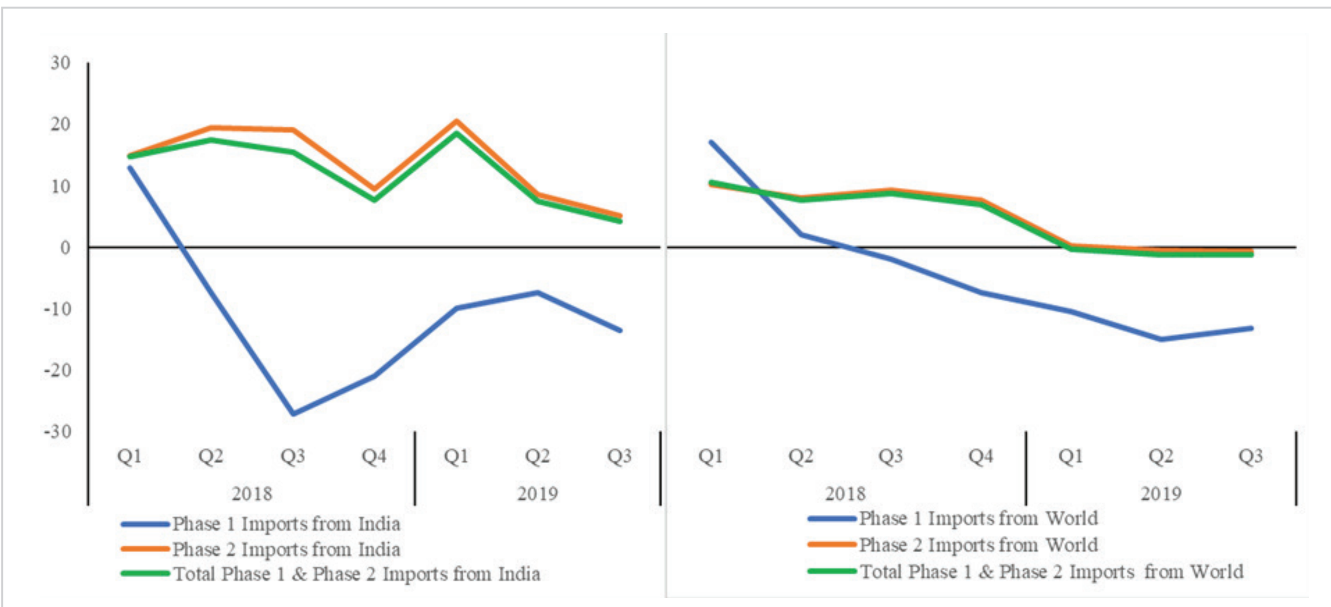


Source: Calculated using data from USITC tariff profiles and WITS trade data

The Impact of these tariff escalations is also reflected in the US imports from India. Figures 7A and 7B using USITC quarterly data indicate the extent to which US imports from India were affected by US tariff escalations on India. There is a fall in US imports from India of Phase 1 tariff escalation items, namely steel and aluminum from Q2 of 2018 in the aftermath of the imposition of tariffs on steel items and hike in tariffs of aluminum items by US. In the case of Phase 2 tariff escalation (due to withdrawal of GSP by US from India and also applicability of duty on Solar cells as a result of the withdrawal of GSP) since June 2019, there is a deceleration in growth of US imports from India in Q2 and Q3 2019. Since Solar cells imports are a small component in the imports of US from India, Phase 2 tariff escalation is mainly due to items for which GSP was withdrawn and MFN duties were applicable. Even the applicability of duty on Solar cells is indirectly related to withdrawal of GSP. **The combined effect of the Phase 1 and 2 tariff escalations by US show a deceleration (though not a fall) in US imports from India of these items since Q3 2018 with a recovery in Q1 2019 and then again a deceleration since Q2 2019. These items (Phase 1 & 2) account for around 2 % of US imports from India in 2018.**

Figure 7A: US Import Growth from India of Tariff Escalated Items of India

Figure 7B: US Import Growth from World of Tariff Escalated Items of India



Source: Compiled from the data extracted from USITC database

US imports from the World also fell due to Phase 1 tariff escalations as imposition/increase of tariffs on steel/aluminum were also applicable to other countries in the World, particularly China which was also hit by these tariff escalations. While the impact on the World of tariff escalations by US on Phase 1 items were relatively lower than that on India till Q4 2018, they were higher than or near to that on India in Q1 and Q2 2019. In the case of Phase 2 tariff escalations (which applied to India and Turkey from which also GSP benefits were withdrawn), US imports from the World actually fell, though marginally in Q2 and Q3 2019, while in the case of imports from India of these items, there was only a deceleration. The combined effects of both the US tariff escalations on the World was a deceleration in imports of these items in Q2 2018 and Q4 2018 and then a fall from Q1 2019 to Q3 2019, while for

India there is a deceleration in Q3 & Q4 2019, then an increase in Q1 2019 and again a deceleration in Q2 and Q3 2019. Interestingly the above figures show that while there is only deceleration in US import growth from India of items out of GSP, in the case of the US imports from the World of these items, there is a fall in imports.

US GSP withdrawal for India has affected many sectors and items as in the case of Natural Rubber and Products where around 60 products at HS 8-digit level between HS 4006 and HS 4017 were affected. Withdrawal of GSP has not affected the export of Black Tea to USA as it does not attract any import duty in USA. In the case of Green Tea for which GSP is withdrawn, exports to US by India is less. Withdrawal of GSP by USA will affect both Basmati and Non-Basmati rice exports to USA. While in the case of Cashew, it has made buyers prefer importing cashew from Vietnam. In the case of Apparels, 15 categories enjoyed GSP, but none of these items were among the important traded categories of India and hence the impact is minimal. As far as cotton textiles are concerned, National Flags predominantly manufactured and exported by the SME sector were affected.

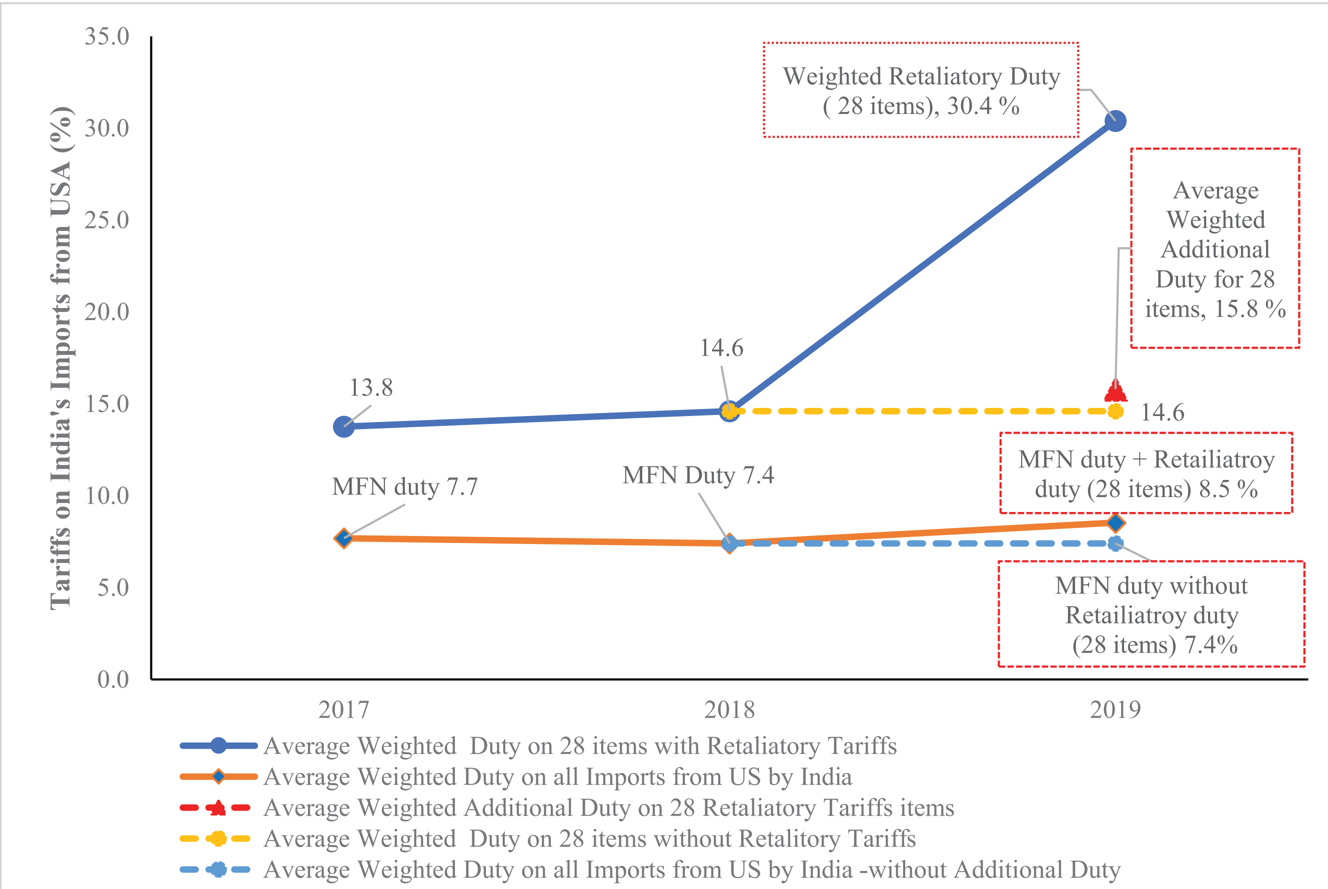
In the case of Leather and Leather Products, US GSP withdrawal will affect India's exports to the tune of US $380 million. Moreover, the additional 25% import duty on China imposed by USA is applicable for all GSP eligible items exported from India, thus, cancelling any possible benefits to India due to US additional duty on imports from China. In fact, the withdrawal of GSP by USA has affected the sourcing plans of the largest buyers from the US like Michael Kors, Coach, Kate Spade, etc. The removal of GSP has been a great set back to their plans and as a result a setback to India's exports of these items. Since the production of many leather & leather products has been moved to GSP countries / low wage countries like Cambodia, Indonesia, Philippines, Myanmar / Vietnam and Bangladesh, India will now be competing against, not China, but countries that have GSP or duty-free access to the US market.

In the case of Sports goods with the removal of GSP, the Sports goods items imported by the US from India now attract Customs Duty at standard rates affecting India's exports of Sports Goods to the major market.

India's Retaliatory Tariffs on the US

After one year's negotiations and multiple pauses, India imposed retaliatory tariffs on US with effect from June 2019 on 28 items. The main items in the list are Agricultural items like Almonds and Apples Fresh, Iron and Steel items and Chemicals. Agricultural items form 57.5 % of the imports of 28 items by India from US in 2018. **The average weighted tariff for imports of 28 items by India using 2018 imports as weights works out to 30.4 percent due to additional duty for the 28 items and the average weighted tariff on all imports from US by India would show an increase to 8.5 percent in 2019 from 7.4 percent in 2018 due to additional duties on 28 items** (Figure 8). The total import value of these items in 2018 as per our estimate is around $1.91 billion and forms 4.9 percent of the total imports of India from US. As per the Department of Commerce (DOC, 2019), the value of imports of these items is around $1.24 billion. The additional duty likely to be collected as per our estimates using 2018 import data is $301.8 million and using Jan-Dec 2017 data as per Dept of Commerce, India estimates is $217.33 million.

Figure 8: Retaliatory Tariffs by India on Imports from the USA



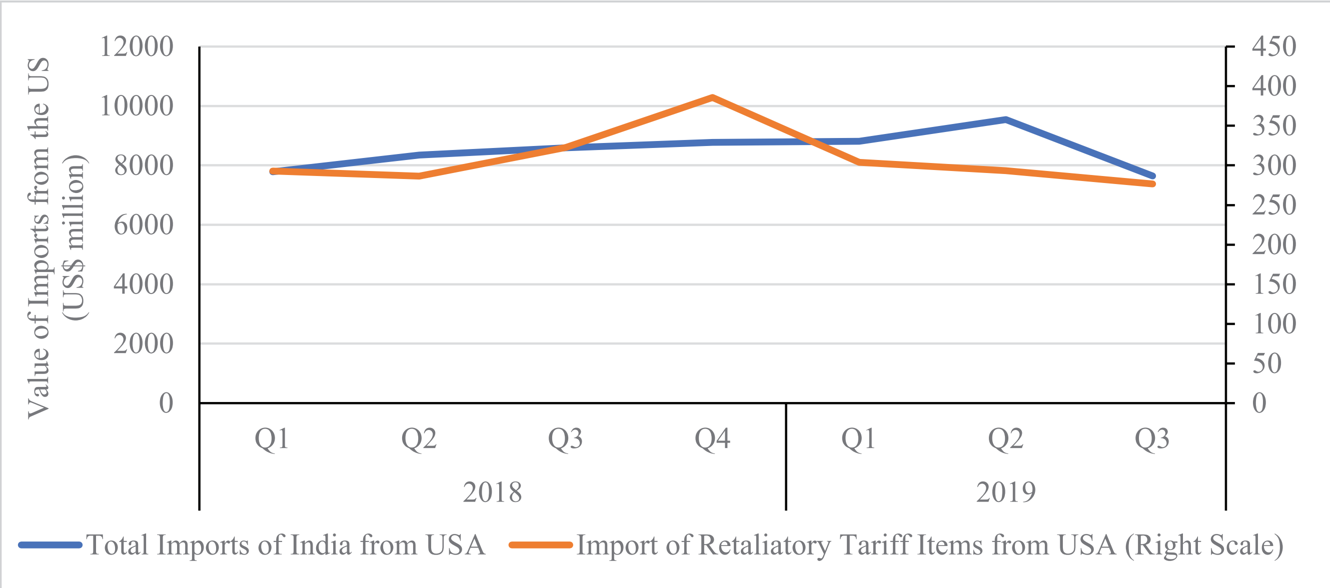
Source: DOC, and WITS database

Note: Methodology for preparing Table 3.3 B and Figure 3.5: Based on DOC (PIB) press release, the list of 28 items at 8 HS code on which additional retaliatory tariff hike was imposed by India on Imports from USA are converted into 6HS code. In this conversion, HS Code 721012 will be common for two 8HS items. Taking the data on India's imports from USA from WITS database, the weighted tariff for these 28 items was calculated for 2017, 2018 and 2019 factoring the tariff hike imposed in 2019. The estimated additional duty likely to be collected in 2019 is estimated assuming that the import value for 2019 is the same as for 2018.

Impact of India's Retaliatory Tariffs on Trade

US Exports to India data mirroring India's imports from US has been used to see the impact on trade due to retaliatory tariffs by India on US imports w.e.f June 2019. As can be seen in Figure 9, **the growth of India's imports from US of the 28 items (US exports to India of the 28 items) on which retaliatory tariffs were imposed fell in Q1 2019 and further in Q2 and Q3 2019.** Though the value of imports of the 28 items by India on which retaliatory tariffs were imposed form only 3.8% and 3.4% of the total imports of India from the US in 2018 and in the first 3 quarters of 2019 respectively, nevertheless they are important items including agricultural items, chemicals and Iron and Steel items. Besides the intention was also to send a message that US action will also face retaliation from India. In fact, total imports of India from US (total exports of US to India) also fell in Q3 2019.

Figure 9: India's Quarterly Imports from USA of Retaliatory Tariff Items (US$ Million)



Source: Computed from USITC data.

Thus India-US Trade Conflict has affected both countries. However, unlike the US -China Trade War where some rapprochement has taken place recently, in the Indian case, this has not happened till now. Instead the US has even taken India out of the developing countries' list citing India's share in World Trade as above 0.5% and on account of India being a G-20 member. As a result, India will no longer be eligible for special preferences under the methodology for CVD investigations. This has also made renegotiations on GSP difficult. Withdrawal of GSP from India and removing India from the Developing Countries list could be the US game plan to force India to the negotiating table to either have an FTA or reduce tariffs on items of export interest to the US.

INDIA'S PREFERENTIAL/FREE TRADING ARRANGEMENTS AND TARIFFS

FTAs/RTAs/PTAs have mushroomed all over the World in the last few years. In this spaghetti bowl of FTAs/RTAs, India is a late entry and in this spaghetti bowl, India has a variety of Trade Agreements– Preferential Trade Agreements (PTAs), Free Trade Agreements (FTAs), Regional Trading Agreements (RTAs), Comprehensive Economic Cooperation Agreements (CECAs), Comprehensive Economic Partnership Agreements (CEPAs), Comprehensive Economic Cooperation and Partnership Agreements (CECPAs) and Economic Cooperation and Technical Cooperation Agreements (ECTCAs), etc. There are also some countries that are part of multiple PTAs/FTAs/RTAs/CECAs of India. In a short time, India has negotiated many Trade Agreements and many are on the pipeline including expansion or graduation of existing FTAs to CECAs, etc. India is a party to 10 FTAs and 6 PTAs.

For the sake of convenience, in this report, all trading arrangements will be denoted by the acronym FTA unless specific mention of the type of arrangement is needed.

Importance and Performance of FTAs in India's Trade

Importance of FTAs in India's Imports/Exports

The importance of FTAs in India's trade can be seen by comparing the share of the FTAs in India's Imports and Exports and also their Growth (CAGR) particularly after the FTAs were implemented. CAGR has been calculated for 3 time periods 2001-2005, 2006-2010 and 2011-2018 by which time 7 PTAs/FTAs, 6 PTAs/FTAs and remaining 3 FTAs were implemented respectively. All stages of implementation for the existing FTAs in the list are now almost complete though in the case of India-Thailand CECA and India-South Korea CEPA only Early Harvest Scheme (EHS) has been implemented.

The CAGR for both imports and exports for FTAs in the three time periods follows the pattern of CAGR of the world for these three periods – very high (above 20% in most cases) in the first period, high (above 10% in most cases) in the second and low (below 10% in most cases) in the third, with some exceptions. In the 2011-18 time period, in the case of India's imports from FTAs, while CAGR for India's imports from the World and other FTAs was low, CAGR for imports from Afghanistan, Bangladesh, Sri Lanka, Singapore, Thailand and SAARC, was high. In the case of India's exports to FTAs, CAGR for Bangladesh, Chile, Malaysia, Nepal, Thailand and SAARC was high.

In terms of share in total imports/exports of India in 2018 among India's RTAs/FTAs in existence, APTA (18.2%/10.7%), ASEAN (11.3%/11.2%) and SAARC (0.8%/7.6%) as country groups and Singapore (2.8%/3.2%), Korea Republic (3.2%/1.5%), Japan (2.5%/1.5%) as individual FTA partners are the major trading groups/countries.

The performance of FTAs can be seen by looking at the share of imports from FTAs in India's total imports and the share of exports to FTAs from India in India's total exports after the FTAs came into existence. For important FTAs of India, the share of India's imports from the FTA in total imports of India after the FTA was formed increased discernibly though sometimes with lags in the case of Republic of Korea, Thailand, APTA and ASEAN and also Sri Lanka, though slightly with ups and downs and Singapore initially for some years after the FTA was formed and now again in 2018. In the case of the share of India's exports to FTA partners in total exports of India, there is an increase in shares in the case of Japan initially for 2 years and then a fall, increase in share in case of Malaysia though small. Increase in share is also noted in SAARC particularly in recent years; APTA since 2003 and ASEAN immediately after the FTA was implemented and recently.

Thus, there is some discernible increase in shares on both the import and export sides, since the FTAs were implemented and over the years in the case of APTA and ASEAN.

India's Preferential Tariffs and Trade with FTAs

The importance of the different FTAs in India's Trade in the context of Preferential tariffs, need to be seen by looking at the extent of preferential trade with these FTAs and not just general trade with the FTAs.

A look at India's Preferential Tariffs and Preferential Imports from its FTAs shows that in most of the FTAs involving small or less developed countries/groups, India's share of Preferential imports is very high with very low preferential and effective tariffs, but high MFN tariffs.This implies that preference margin is also high and in some cases, Preferential tariff itself is Effective tariff. Even in many other FTAs, India's preferential import share is substantially high and Preferential tariffs and Effective tariffs (weighted) are still low in the range of 0.6% to 3.8%, but MFN tariff is high. In the case of only MERCOSUR and APTA,both Preferential and Effective tariffs are relatively high and India's preferential imports shares are low. (Table 7)

Table 7 : India's Preferential and Effective Tariffs on Imports from FTA/PTA/RTA Partner Countries in 2018: A Comparison

	Simple Average Tariffs			Weighted Average Tariffs			Imports (US$ Million) 2018		Share of Pref. Imports to Total Imports (%)
	Effective	MFN	Pref.	Effective	MFN	Pref.	Total	Pref.	
World	8.7	13.5	---	4.9	6.0	---	614995	---	---
Afghanistan	0.0	24.8	0.0	0.0	47.0	0.0	513	512	99.8
Bangladesh	0.1	11.0	0.0	0.0	10.5	0.0	1080	1056	97.8
Sri Lanka	1.6	12.1	0.9	1.0	18.4	0.9	1523	1442	94.7
Chile	12.4	14.5	6.9	2.2	4.8	0.4	2282	2147	94.1
Japan	4.3	10.4	2.5	3.0	7.6	2.3	15039	12525	83.3
Korea, Republic of	2.8	9.9	0.7	1.9	7.8	0.8	19574	14669	74.9
Malaysia	2.2	10.1	0.9	1.9	5.7	0.7	12873	6904	53.6
Nepal	0.1	14.0	0.0	0.0	21.3	0.0	485	480	99.0
Singapore	2.6	11.0	0.7	1.8	6.8	0.6	16851	12021	71.3
Thailand	2.6	10.9	0.9	2.6	8.8	1.2	9423	7498	79.6
SAARC	1.9	12.7	1.0	1.1	18.9	0.7	4569	4081	89.3
APTA	5.9	10.9	1.5	5.5	6.9	3.8	111850	29690	26.5
MERCOSUR	10.5	10.9	7.7	7.2	7.4	10.9	16807	2774	16.5
ASEAN	2.5	11.8	0.9	2.6	7.2	0.9	69340	48290	69.6

Source: Compiled from WITS database

Note: In the case of group of countries, the average tariffs of FTA partners excluding India are calculated using WITS database.

In the case of the imports from India by India's FTAs mirroring the exports of India to the FTAs, not only are the shares of Preferential imports of these FTAs from India in their total imports from India much lower, the average weighted preferential tariffs by many of these FTAs to India are relatively high. Only in the case of Korea Republic and APTA, the preferential tariffs are low and the shares are reasonably high at 69% and 51.8% respectively. In the case of Japan, the preferential tariffs are low but the share is only 43.3% and in the case of ASEAN, the share is 47.7% but preferential tariffs are relatively high. In the case of Singapore, preferential tariff is '0', Effective tariff is also low and preferential import share near to '0' as MFN tariff is '0' for most of the items (Table 8).

Table 8 : Preferential Tariffs on Imports from India by PTA/FTA/RTA Partner Countries in 2018 : A Comparison

	Simple Average Tariffs			Weighted Average Tariffs			Imports Value in US$ million		Import Share of PRF to MFN (Total) (%)
	Effective	MFN	Pref.	Effective	MFN	Pref.	Total	Pref.	
Afghanistan	7.1	8.1	7.9	4.4	5.2	5.5	557	115	20.7

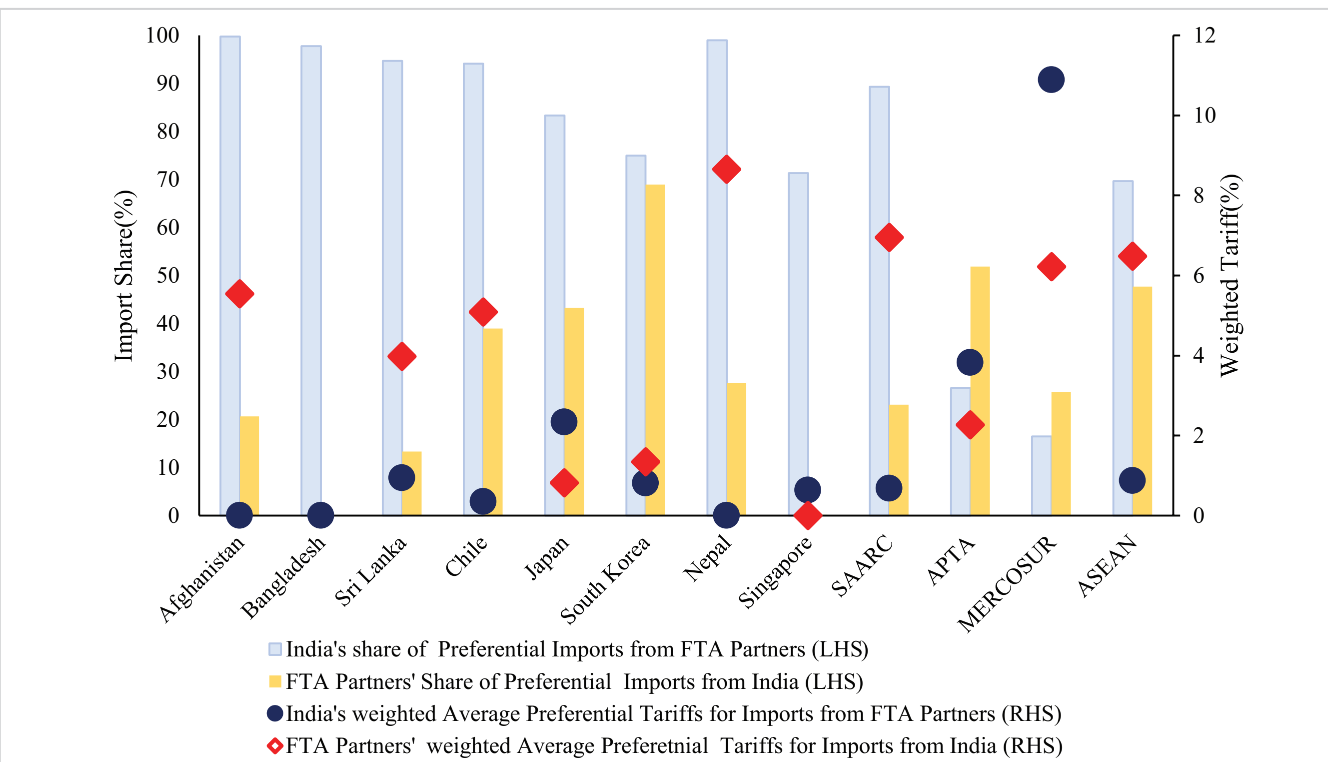
Sri Lanka	6.4	10.2	2.0	7.4	9.3	4.0	4413	589	13.4
Chile	5.9	6.0	4.7	5.6	6.0	5.1	982	383	39.0
Japan	1.7	4.4	0.8	0.7	2.7	0.8	5469	2367	43.3
Korea, Republic of	5.2	12.1	1.4	6.9	11.1	1.3	4948	3412	69.0
Nepal	9.7	12.4	7.1	12.7	14.0	8.7	7296	2019	27.7
Singapore	0.0	0.5	0.0	0.0	2.5	0.0	7247	12	0.2
SAARC	7.3	11.5	4.9	9.4	10.9	7.0	14480	3348	23.1
APTA	6.6	10.5	2.7	4.4	6.7	2.3	25707	13329	51.8
MERCOSUR	13.6	13.6	7.2	11.4	11.5	6.2	5035	1296	25.7
ASEAN	3.1	5.2	3.8	4.0	6.3	6.5	20788	9908	47.7
SAARC	1.9	12.7	1.0	1.1	18.9	0.7	4569	4081	89.3
APTA	5.9	10.9	1.5	5.5	6.9	3.8	111850	29690	26.5
MERCOSUR	10.5	10.9	7.7	7.2	7.4	10.9	16807	2774	16.5
ASEAN	2.5	11.8	0.9	2.6	7.2	0.9	69340	48290	69.6

Source : Computed from WITS database.

Note: In the case of group of countries, the average tariffs of FTA partners excluding India is calculated using WITS database.

There is a sharp contrast between the share of Preferential imports and tariffs of India's different PTAs/FTAs on the import and export sides. The share of preferential imports from India by India's FTAs in their imports is much lower than India's share of preferential imports from these FTAs in India's imports. Even the preferential tariffs for imports from India by these FTAs are relatively higher than India's preferential tariffs for imports from these FTAs leaving some exceptions (Figure 10).

Figure 10 : Preferential Tariffs (Weighted) and Share of Preferential Tariff Imports from/to India's FTA Partners-2018



Source: Compiled from WITS database

The contrast between the import and export side of FTAs is very clear as can be seen from Figure 10. The red coloured diamonds giving the weighted average preferential tariffs of India's FTA partners on imports from India are higher than the black dots which indicate India's weighted average preferential tariffs on imports from most of these FTAs. Japan, Singapore, APTA and MERCOSUR are the exceptions. The share of preferential imports of India from its FTAs given by the blue bar is higher than the yellow bar giving the share of preferential imports of FTA partners from India for most FTAs except APTA and MERCOSUR. Thus, there is some sort of an 'Unequal Exchange' for India in its FTAs in terms of both tariffs and preferential imports/exports with some exceptions.

Some sort of balance in terms of Preferential trade can be seen only in the case of India-South Korea preferential trade, where both the preferential trade shares and preferential tariffs on both the import and export sides are near to each other. In the case of APTA and MERCOSUR, the balance seems to have shifted in India's favour in terms of both the preferential tariffs and share of preferential trade. While APTA's preferential trade with India is reasonably high, India-MERCOSUR preferential trade is limited. In India-Singapore CECA, India has not gained any tariff concessions, instead, it has given substantial tariff concessions. The gains need to be seen only in other parameters covered in the CECA.

Another thing to be noted is that the Preferential tariffs (weighted) are much lower than MFN tariffs on India's import side, while in India's partner's import side, Preferential tariffs are closer to MFN tariffs with some exceptions. This indicates that, the Margin of Preference given by India to its FTA partners is higher than the Margin of Preference given by them.

One more thing to be noted is that more than the utilization rate of FTAs being lower by India on the export side as mentioned in some studies, it is the low coverage of items under preferential trade in the imports of FTA partners of India and the relatively low preference margins which are important. While preferential tariffs are extended by India's FTA partners to India, unlike India, majority of items are not covered in the given sector at the 2-digit level. Further, the preference margin by India for imports from its FTAs is higher than the preference margin by India's FTAs for imports from India.

Thus, India's FTAs with some exceptions seem to have been less beneficial from the tariff point for India, though there are other considerations.

Tariffs by India on Imports from FTAs and Vice-Versa: Sector-Wise Analysis

This study also makes a sector wise analysis of FTAs with Sri Lanka, Japan, South Korea, Singapore, Thailand and Malaysia as individual countries and APTA, SAARC, ASEAN as groups by comparing weighted average preferential and effective tariffs and preferential and total imports at 2 digit level and in some cases at 6 digit level.

India-Sri Lanka Preferential Trade

The India-Sri Lanka Free Trade Agreement (ISFTA) has been in operation since 1st March, 2000. Under this Agreement, both countries agreed to phase out tariffs from each other within a fixed time frame except for those items in the Negative List of each other. India has provided duty-free access to almost all the lines, except on 556 lines (mainly related to textiles) on which 25% duty concessions are provided and on 430 products on which no concessions are given. Tariff rate quotas have been prescribed by India on import of apparel, tea, pepper, desiccated coconut and vanaspati, bakery shortening and margarine from Sri Lanka. Under ISLFTA, Sri Lanka has provided duty-free access for many products except 1220 products on which no tariff concessions have been provided under ISLFTA.

Both countries are discussing a broader economic engagement through a proposed Economic and Technology Cooperation Agreement (ETCA).

India's Imports from Sri Lanka

Preferential Tariff items form 94.7% of total imports of India from Sri Lanka. Import items at the two-digit level above $10 million form more than 93% of total imports and 94.1% of Preferential Imports. Except for 8 items at the 2digit level in this list, all others have '0' Preferential Tariffs for Sri Lanka. Even for these 8 items, Preferential Tariffs are much lower than India's MFN Tariffs.

Thus, India has extended zero Tariffs or near-zero Tariffs for most of the items imported from Sri Lanka including some sensitive items in Agriculture sector under Edible Fruits & Nuts category and even for Beverages, Spirits and Vinegar (0%) for which India's MFN and Effective Tariffs to World is very high at above 80%. For only two major import items in agricultural sector, Preferential duties are significant. These are coffee, tea, mate and spices (6.2%) and Animals or vegetable fats and oils (8%). All others have zero or near-zero tariffs. In the case of non- agricultural sector also, zero or near zero tariffs have been extended to most of the major items including rubber and articles. Preferential tariffs are slightly high only for some textiles items.

The Effective Tariffs (AHS) is almost equal to Preferential Tariffs in the case of most of the imports of India from Sri Lanka implying that Preferential Tariffs cover most of the items imported by India from Sri Lanka, which is also evident from the sector-wise preferential import figures which are equal or near to sector-wise total imports by India

Sri Lanka's Imports from India

Sri Lanka's imports from India mirror India's exports to Sri Lanka. Preferential imports form only 13.4% of Sri Lanka's imports from India in 2018 in value terms, though simple average and weighted average Preferential Tariffs are 2.0% and 4.0% respectively and despite Sri Lanka extending zero tariffs for many items for India. Since for the remaining 86.6% non-preferential imports in value terms, MFN Tariffs applies, Sri Lanka's Simple and Weighted Average Effective Tariffs for India are higher at 6.4% and 7.4% respectively. Import items at two-digit level above $50 million form more than 87.4% of total imports and 73.1% of Preferential Imports.

In the list of items with an import value of the two-digit code above $50 million, Sri Lanka has extended zero Tariffs in a few two-digit codes and that too for few items in the code where imports from India are less. The only items in which India has been given real concessions with high preference margin are in Non-Agricultural sector with Articles of Iron and Steel having a 1.9% Preferential tariff with substantial preferential imports compared to 15.5% MFN tariff. Similarly, for Paper and Paperboard and Plastic Articles, the preference margins are high.

Leaving the few exceptions, by and large, India's preferential trade with Sri Lanka in terms of Tariffs is one of 'Unequal Exchange', with fewer benefits for India compared to Sri Lanka. While there is a need to re-negotiate at least for some items with Sri Lanka, the preferential treatment to Sri Lanka and vice-versa should serve as an eye-opener while negotiating future FTAs.

India-Japan Preferential Trade

A Comprehensive Economic Partnership Agreement (CEPA) between India and Japan was signed on 16th February 2011 which came into force from 1st August 2011. Under the institutional mechanism of CEPA, the 5th Joint Committee meeting was held in December 2018 in New Delhi.

India's Imports from Japan

Preferential imports form 83.3% of the total imports of India from Japan. Import items at two-digit level above $10 million form more than 99.7% of total imports and 99.7% of Preferential imports of India from Japan.

While among the above $10 million imports, only one textiles item at the two-digit level has zero duties, almost all the items have Preferential Tariffs, which are much lower than India's MFN Tariffs for these items (Zero duties have been extended by India particularly for textiles items below the 10 million cut-off level but their imports are less). Among the top items, Iron and Steel items have near-zero preferential tariffs.

Except for one item, Oilseeds and Oleaginous Fruits with 3.0% preferential duty and very high preferential margin (as reflected in the difference between Preferential Tariff and MFN Tariff), all other items are in the Non-Agricultural sector. Though the preferential tariff is very high in the case of one major import item i.e. Vehicles other than Railways or Tramways, etc. at 7.1%, the preference margin is also high as India's MFN tariff for this item is more than double the preferential tariff at 16.1%.

Japan's Imports from India

Japan has given Preferential Tariffs only for 43.3% of the imports from India. The top items with import values of $50 million and above at two-digit level form more than 86% of the imports of Japan from India and 79% of preferential imports from India.

While for most of the items zero or near-zero Preferential Tariffs have been extended to India, the Preferential benefits are relatively less as MFN Tariffs for these items itself is low. Two items, Article of Leather etc., and Footwear have preferential Tariffs of 2.7% and 15.8% respectively. However, the preference margin is high as Japan's MFN Tariffs are 10.1% and 34.5% respectively. Articles of

Apparel, not knit is another important item with a high preference margin as Preferential Tariff for India is zero, but MFN Tariff is 9.1%.

Among the items between $10 million and $50 million of imports at two-digit level, in some items, India has benefits as preference margin is high and imports are reasonably high. These include Articles of Apparel, etc., knit; other made-up textiles articles, etc.; Carpets, etc.; preparations of Meat, fish, etc.; preparations of vegetables, etc., man-made staple fibers; man-made filaments; and miscellaneous edible preparations.

In the India-Japan preferential trade, while the preference margin is high in the case of most of the items on India's import side, on the Japanese side, the preference margin is relatively less as already India enjoys low or zero MFN tariffs in Japan. But in some important items of export interest to India like leather and footwear, organic chemicals and fish & related items, India has benefitted. Thus India-Japan CEPA is relatively a 'fair exchange' in terms of tariffs.

India-Republic of Korea Preferential Trade

A Comprehensive Economic Partnership Agreement (CEPA) between India and Republic of Korea was signed on 7th August 2009 which came into force from 1st January 2010. The two sides commenced negotiations for upgradation of CEPA in 2016. The negotiations are still underway with the 6th round of negotiations held on June 20-21, 2018 in New Delhi & 7th round of negotiations held on December 11-12, 2018 in Seoul. An early harvest package was signed in July 2018 as a part of the ongoing negotiations.

India's Imports from the Republic of Korea

The share of preferential imports to total imports of India from the Republic Korea is around 75%. The $50 million cut-off at two-digit level covers more than 97.5% of the imports of India from Korea and 97.6% of preferential imports of India from Korea.

Almost all items above the $50 million cut off have zero, near zero or low preferential tariffs except Vehicles other than Railways, etc. (6.0%) and Inorganic Chemicals (2.8%). However, in both these cases, preference margin is high as India's MFN tariffs are high at 16% and 6.9% respectively. Major items with zero, near-zero and low duties include Electrical Machinery, etc.; Iron & Steel and other Metals; Nuclear Reactors, etc.; Optical, Photographic items, etc.; Plastics & Articles; Chemicals; Rubber & Articles; Paper & Paperboard; Tanning or Dyeing extracts; and some textiles items.

Most of the Preferential Tariff items are non-agricultural. In agricultural items, Preferential tariffs have been extended mainly to oil seeds and oleaginous fruits. Though it is also extended to miscellaneous edible preparations, the Preferential Tariffs (weighted) are relatively high at 15.9%. In fact, many agricultural items are not even imported from Korea.

Republic of Korea's Imports from India

In the imports of the Republic of Korea from India, 69% of imports have Preferential Tariffs. The $50 million cut-off point includes around 85% of Republic of Korea's imports from India and 80%

preferential imports from India.

Out of 19 codes in the list, 16 have '0' preferential duties. But the preference margin is not that high compared to India's preference margin for imports from Korea. This is because Korea's MFN tariffs are relatively lower. The major items with Preferential tariffs of zero or low duties (other than mineral fuels which have zero or low tariffs in all countries) are Aluminum, Organic Chemicals, Iron & Steel, Nuclear Reactors, etc., Cotton, Zinc, etc. and Electrical Machinery, etc.

In the case of oilseeds and oleaginous fruits, while preferential tariffs are 3.7%, MFN Tariffs are 244.2%. However, Korea's preferential imports of this item from India is less. Residues and waste from food industry with 4.1% preferential tariff is the other agricultural item in this list.

Thus, in the case of Indo Korea Preferential trade, while in terms of share of preferential items in imports of India/Korea there is some sort of equal exchange, in terms of preference margins the imbalance is there mainly due to relatively lower MFN Tariffs of Korea.

India-Singapore Preferential Tariff

India's first Comprehensive Economic Cooperation Agreement (CECA) was signed with Singapore on 29th June, 2005 and became operational from 1st August 2005. The 1st Review of India-Singapore CECA was concluded on 1st October 2007. The conclusion of the 2nd Review of India-Singapore CECA was announced on 1st June 2018 and the provisions of the Protocol amending the CECA based on the 2nd Review came into effect on 14th September 2018. The 3rd Review of India - Singapore CECA was launched on 1st September 2018.

India's Imports from Singapore

Preferential tariff items form around 71% of imports of India from Singapore. The cut-off of $50 million covers more than 96% of imports of India from Singapore and 95% of preferential imports.

India has extended zero/near-zero to 1% tariffs for most of the items which also have high preference margins. These include electrical machinery; nuclear reactors, etc.; organic and miscellaneous chemicals; plastics; ships, boats, etc.; optical, photographic items; natural or cultured pearls, etc.; Iron & Steel & Iron & Steel items; and other minerals. The exceptions are Pharmaceuticals with 4.2% average weighted preferential tariffs and vehicles other than railways which has 3.1% average weighted preferential tariffs, but has high preference margins, as MFN tariff is 16.1 percent and includes many auto components (Code 87: Vehicles other than Railway or Tramway, Rolling-stock, etc.) possibly needed for high-end cars sold in India.

Important agricultural items in top imports with zero or near zero preferential tariffs are animal or vegetable fats and oils; and edible fruits & nuts. Interestingly while zero Preferential tariffs are there for beverages, spirits and vinegar, this covers only a small portion of items in this category and for a majority of the items, MFN tariffs apply resulting in high Effective tariff of 147.9%.

Singapore's Imports from India

The share of preferential tariff items in total imports of Singapore from India is only 0.2%. This is because all except one item imported from India have zero MFN tariff. The $50 million cut off includes 97.8% of total imports and 100% of Preferential imports of Singapore.

In the case of Singapore, as pointed out by some studies, the data of India and Singapore differ. Thus, when Singapore's imports from India data are used to mirror India's exports to Singapore, there is a difference to the tune of US$ 3170 million in 2018. This is mainly due to re-exports.

India already enjoys zero MFN tariff in Singapore and preferential margin is almost nil. The one item where there is a preferential tariff for India is Beverages, Spirits and Vinegar. Here though India has tariff benefit with zero preferential tariff and weighted average MFN tariff at 85.1%, import of this item by Singapore from India itself is low at only $12.4 million in 2018.

Thus, in the case of India-Singapore Preferential trade, India does not enjoy tariff-related benefits. Instead, India has given substantial concessions to Singapore with zero or low tariffs in many items with high preference margins. The benefits need to be seen in areas other than tariffs.

India-Malaysia Preferential Trade

A CECA was signed with Malaysia on 18/2/2011 and became operational on 1st July 2011. Under this CECA, both countries have offered commitments over and above the commitments offered by them under the ASEAN-India Agreement on Trade in Goods.

India's Imports from Malaysia

Preferential imports is around 54% of India's imports from Malaysia. Codes above the $50 million cut-off form around 96% of imports of India from Malaysia and 94% of preferential imports. In most of these items preferential tariffs are zero, near-zero or low with preference margin high particularly in the case of rubber and articles; furniture etc., glassware, Iron & Steel and articles of Iron & Steel; soaps, etc. and Miscellaneous Chemicals.

In the case of India's imports from Malaysia, in agricultural and plantation items including items below the $50 million cut off, there are some important zero or near-zero preferential tariff items. These include edible fruits and nuts, some animal and vegetable fats and oils including palm oil, sugars and sugar confectioneries, cocoa and cocoa preparations, preparations of cereals, preparations of vegetables, fruits, nuts and miscellaneous edible preparations. Among these items, animal or vegetable fats and oils is a major import item, though preferential imports are less. The effective tariff is high for this item indicating that for a major part of the items in this category MFN tariffs apply. This is also because the final tariff reductions took place in 2019, while the data is for 2018. Preparations of vegetables etc. and miscellaneous edible preparations also have high effective tariffs though their imports are less.

For special products, India had to reduce tariffs by 31/12/2019 from the base rate for Crude Palm Oil (CPO) from 80% to 37.5%, Refined Palm oil (RPO) from 90% to 45% (for which only advancement of the timeline from 2019 to 2018 is offered compared to India-ASEAN Trade in Goods Agreement); Coffee, Tea, Palm Kernel Oil and its fractions from 100% to 45%; Pepper from 70% to 50%; and margarine of Vegetable Origin (edible grade) from 80% to 45%. Recently as a safeguard measure, India increased customs duty on Refined Bleached Deodorized Palmolein and Refined Bleached Deodorized Palm Oil (Codes 15119010 and 15119020) by 5% to 50% for 180 days for goods originating in Malaysia and imported under India-Malaysia CECA. This increase was imposed in September 2019 and lasted till 2nd March 2020. It has not been extended further.

Imports of Malaysia from India

The India-Malaysia CECA document indicates that the key items on which Malaysia has extended market access to India are Basmati Rice, Mangoes, eggs, trucks, motorcycles and cotton garments. As per the CECA under Speed Track, tariffs had to be reduced by 31/12/2016 from base rate for Basmati Rice from 40% to 20% and for Motorcycles CBU from 30% to 10%. The in-quota and out-quota tariff rates to be reduced to 0% and 10% respectively from MFN in-quota and out-quota rates of 10% and 50% for hens' eggs and ducks' eggs.

In the case of India's FTA with Malaysia, the limitation is due to data availability. While the latest preferential tariff data on India's import side is available in WITS, the preferential tariff data of Malaysia's imports from India are not available beyond 2014. So, the preferential tariff data for 2014 at the 6 digit level along with the latest trade data for 2018 from ITC Trade Map have been taken for this analysis.

Taking the imports data from ITC Trade Map and WITS tariff data for 2014, the top imports of Malaysia at the 6 digit level are taken first. Out of 319 import items at 6 digit level (with a share in total imports of 73.3%), 100 items were covered under preferential tariffs in 2014, (with a share in total imports of 32.1%), of which 48 items had zero duties. Out of the 100 top items, a list has been prepared for items with an import value of above $10 million having preferential tariffs. In the case of the top 2 petroleum related items, the preference margin for India is low, but imports of Malaysia have increased manifold in 2018 compared to 2011 when the FTA was implemented. The preference margin has been high and also imports by Malaysia from India has increased in many items like semi milled or wholly milled rice at the cost of imports from the rest of the world; Lead-acid accumulators, etc.; Single cotton yarn of combed fibres, etc.; furniture, etc.; parts of valve, etc. However, the value of imports of these items is not high.

Thus, India Malaysia Preferential Trade has export benefits for both countries in specific products like refined Palm Oil exports for Malaysia and refined Petroleum Oil and semi milled or wholly milled rice for India.

India-Thailand Preferential Trade

India and Thailand signed a framework agreement on 9.10.2003 for establishing an India Thailand FTA. There is an Early Harvest Scheme (EHS) under this Framework Agreement comprising 83 items of mutual interest for which both sides had agreed to make tariff concessions in a phased manner with a 100% reduction by 1/9/2006.

India's Imports from Thailand

Preferential imports form nearly 80% of the total imports of India from Thailand. Items above the cut-off of $50 million form more than 93.5% of total imports of India from Thailand and 92% of preferential imports.

There are many-zero, near zero and low duty imports in this list with a high preference margin like Vehicles other than Railways or Tramways, etc. Rubber & Articles, Natural or Cultured Pearls, Iron & Steel and Articles of Iron & Steel, Residues and wastes from Food; Paper & Paperboard; Tanning or dyeing extracts, Raw hides and skins, Glass & Glassware and Textiles impregnated, coated, covered or laminated. In the case of rubber and articles, while average weighted Preferential duty is 3.1%, weighted average Effective duty is 9.2% as there are many items in this category that are not covered under Preferential tariffs.

Most of the major agricultural items have zero or near-zero duties except edible fruits and nuts with 3.1% duty and animals or vegetable fats, etc. which has Preferential duty of 6.4% but very small Preferential imports. Interestingly India has zero average weighted Preferential tariffs for some 2-digit agricultural categories, like Residues and waste from food industries, but they form a relatively small portion of imports in the respective categories and Effective tariffs are high implying that the remaining items have high MFN tariffs.

Imports of Thailand from India

In the case of imports of Thailand from India also, latest tariff data available in WITS is for 2015. The latest trade data from ITC Trademap is for 2019. So, an exercise similar to the one for imports of Malaysia from India has been done here.

Preference Margin and import growth of Thailand from India in 2019 over 2011 is very high for Medicaments; fruits of the genus Capsicum; Fungicides; light and medium petroleum oils; articles of Jewellery; automatic circuit breakers, etc.; containers of iron or steel; Herbicides, etc.; fresh grapes; articles of vulcanised rubber; and salts, etc.

Thus, in India-Thailand FTA also there seems to be benefits in specific products for both the countries.

India-SAARC Preferential/Free Trade

SAFTA came into effect in 2006 with a reduction in tariff rates to 20% in the first phase by 2007 and zero tariffs in the second phase till 2012 for India, Pakistan and Sri Lanka. Extra three years were given to other members to reduce tariffs to zero. However as pointed out in some studies, there were restrictions on products, multiple exemptions and constrained rules of origin. Added to this was the political tensions between India and Pakistan which also extended to the trade field. Thus, there was a lot of gap between what was in paper and what actually happened. Added to this some countries had separate FTA with India or were part of some other FTAs of India.

India's Imports from SAARC

Around 89% of India's total imports from SAARC countries are preferential imports. Imports above $50 million at the 2-digit level cover more than 81.5% of imports by India from SAARC and 82.2% of preferential imports.

India has extended zero or near-zero preferential tariffs for most of the top items which also have high preference margins. These items include ships, boats, etc.; many textile items; Iron & Steel; Salt, Sulphur, etc.; electrical machinery etc.; nuclear reactors, boilers, etc.; residues from food industry, etc.; plastics; beverages, etc. (with very high preference margins); copper & articles; inorganic chemicals; rubber & articles; and animal or vegetable fats. Mineral fuels also have zero duties but very small preference margins. Thus, on India's Import side, a variety of items have zero or near zero preferential tariffs with high preference margins.

Among the top items, coffee, tea, mate and spices have a preferential tariff of 3.4%, but preferential margin is very high as average weighted MFN Tariff is very high at 55.1%. Rubber Articles have a weighted average preferential tariff of 1.3%, but preference margin is high as MFN Tariff is 12.7%. There are many agricultural items in the high preference margin list. These are sensitive items and for many, even tariffs may have to be re-negotiated as they have affected the livelihood of farmers.

Imports of SAARC countries from India

Preferential Tariff items form only 23% of total imports of SAARC from India. Import of items above $50 million at 2-digit level cut-off form more than 94% of total imports of SAARC from India and 91% of preferential imports of SAARC from India.

A number of items cutting across sectors have preferential tariffs. Even though there are preferential tariffs for India for many items, they are high with none of the top 2-digit codes in the list having zero average weighted preferential tariffs. Even preference margin is less. Besides under many codes, only a few items are given preferential tariffs resulting in weighted average Effective Tariffs being higher than weighted average preferential tariffs in many items.

The above analysis shows that while India has zero or low preferential tariffs with high preference margins for imports from SAARC, other SAARC countries have applied relatively high preferential tariffs on imports from India with a low preference margin. Thus, India's Tariff related benefits due to SAFTA are relatively less compared to its SAARC trading partners and this is also a case of 'Unequal Exchange' in terms of tariffs.

India-APTA Preferential Trade

APTA or the Bangkok Agreement, a preferential trade agreement, came into effect in 1976. It is the oldest preferential trade agreement between countries in the Asia-Pacific region. Under APTA, India has extended tariff concessions on 3142 items to 5 countries including China, Bangladesh, Republic of Korea, Sri Lanka, and Laos effective from July, 2018. Apart from exchanging tariff concessions on 3142 tariff lines with all member countries, India has also extended special concessions on 48 tariff lines for LDCs (Bangladesh and Laos). With the implementation of the fourth round of concessions, the coverage of preferences of total tariff lines for each member would come to 10,677 tariff lines and deepen the average preference margin to 31.52%. LDCs are entitled to greater concessions on 1249 items, with an average preference margin of 81% under APTAs S&D provisions.

India's Imports from APTA

The share of preferential imports of India from APTA is 26.5% of the total imports from APTA. Import of items above $50 million cut-off point at 2-digit level form 99.4% of total imports of India from APTA and 99.3% of preferential imports of India from APTA.

Though India has extended preferential tariffs in most of the items, the preferential tariffs are relatively high and thus preference margins are low in many items. Zero or near-zero preferential tariff is extended only to some items like Mineral Fuels with low preference margins; Fertilizers; Aluminum, Zinc & Articles; Footwear, Articles of Leather, Article of Apparel, Knit and Non-Knit, other Textiles items; Lead, etc.; Pharmaceuticals products; Residues & waste of Food Industry; Edible Fruits & Nuts; and Ores, Slag & Ash. Preference margin is high in zero and near-zero items only in the case of few items like footwear and Articles of Leather, Apparels, Residues from Food and Edible Fruits & Nuts.

For important agricultural sector items with total imports above $50 mn, Preferential tariffs by India are zero or near-zero. Exceptions are coffee, tea, mate and spices (6.5%). Effective tariffs are however higher even when Preferential tariffs are low or relatively low in almost all the 2-digit categories under consideration. In the case of non-agricultural sector also zero or near zero Preferential tariffs are extended only in few categories and that too not the majority of the items in the category resulting in relatively high Effective tariffs.

APTA's Imports from India

Preferential Tariff items have a 51.8% share in total imports of APTA from India. Items at above $50 million at 2-digit level form 97.4% of total imports of APTA from India and 97.7% of preferential imports from India.

While APTA has extended preferential tariffs to India, zero or near-zero tariff items are less and the preference margin is also less as the gap between preferential and MFN Tariffs of APTA for India is less. The top preferential imports are spread over many sectors including Natural and Coloured Pearls, etc.; Chemicals; Ores and Metals; Mineral Fuel; Nuclear Reactors, Boilers, etc.; Vehicles other than Railways and tramways, etc; Textile Items and Rubber and Articles. There are many Agricultural Items as well, like Animal or Vegetable Fats, etc. and Cereals with high/very high preferential tariffs. Some important items with not too low preferential tariffs, but having high preference margin are cotton; vehicles other than railways and tramways, etc; tanning or dyeing extracts, etc; articles or apparels and clothing, not knit, etc; and Fish and Crustaceans, etc.

One thing to be noted is that though the share of preferential items of APTA in its imports from India is nearly double the share of preferential items imports of India from APTA, in absolute import value terms, APTA's preferential imports from India are half the preferential imports of India from APTA. Preferential tariffs are relatively high and preference margins are low in both India's imports from APTA and and APTA's imports from India imports from India. Thus, while there is some sort of a 'Fair' or 'Equal Exchange' in this preferential arrangement in terms of tariffs, tariffs are still relatively high on both sides.

India-ASEAN Preferential Tariffs

India and the ASEAN signed the Agreement on Trade in Goods under the broader framework of the Comprehensive Economic Cooperation Agreement (CECA) between India and the ASEAN on 13th August 2009. The Agreement became fully operational between all the ASEAN Member States and India in 2010 and 2011.

India's Imports from ASEAN

Preferential imports form nearly 70% of the imports of India from ASEAN. The $50 million cut-off at 2-digit level forms 99.2% of total imports of India from ASEAN and 99.1% of preferential imports of India from ASEAN.

The Preferential Tariffs are spread over many sectors. The top imports are mineral fuels, etc., with zero preferential tariffs and low preference margin followed by electrical machinery with near-zero tariff and MFN tariffs of 4%. India has extended zero, near-zero and low preferential tariffs in most of the products except Coffee, Tea, Mate, etc., with 32.3% and Oilseeds, etc., with 15.2% average weighted Preferential Tariffs. However, the MFN tariff is nearly double the Preferential tariffs in both the cases resulting in the high preference margins. Preference margins are high in some other items also like Rubber & Articles; Natural or Cultured Pearls, etc.; Vehicles other than railways; Articles of Iron or Steel, Paper & Paperboards, Footwear, Leather and Tanning items, Textiles items and Beverages, Spirits, etc.

ASEAN's Imports from India

Preferential imports cover 48% of imports of ASEAN from India. The items above $50 mn cut-off form 96.4% of total imports of ASEAN from India and 95.9% of preferential imports. While ASEAN has extended preferential tariffs to India, two digit codes with zero or near zero average weighted tariffs are very less.

The preference margin is less for many codes and the value of preferential imports covered under different codes is also relatively less.The items are spread across sectors. While India has some benefits in cereals with preferential tariffs of 3.8% and MFN tariffs of 9.5%, the value of preferential imports is very low. Man-made filaments with Preferential tariff of 2.7% and MFN tariff of 11.3%, Miscellaneous edible preparations with 6.3% preferential tariff and 18.2% MFN tariff and edible fruits and nuts with 6.3% preferential tariff and 12.4% MFN tariff are some other items where India has some discernible preferential tariff advantages, though their imports are less.

Thus, in the case of ASEAN, while the share of preferential imports by ASEAN from India is less than India's preferential imports from ASEAN, unlike other FTAs/RTAs India's share of preferential imports in total imports from ASEAN is also not that high. The preferential tariffs, are low and preference margin is high for India's imports from ASEAN, while preferential tariffs are relatively higher and preference margins are low for ASEAN's imports from India. Thus, India-ASEAN preferential trade though not one of Equal Exchange, has some elements of fairness in terms of tariffs as average MFN tariffs of ASEAN (both simple and weighted) are already relatively low for India.

Total Duty Under FTAs

In the case of India's FTAs also, it is not just Preferential tariffs that have to be paid by the importer, instead, the total tariffs have to be paid. Total tariffs or total duties for FTAs also include IGST and SWS. However, instead of BCD, Preferential duties are taken along with IGST and SWS to compute total duties. Antidumping duties if present will also be applicable.

While calculations of total duty for India's total imports are generally not done, calculations of total duties for FTAs/RTAs are conspicuous by their absence. So as examples, total duties for India's imports from Singapore under India-Singapore CECA and India-ASEAN CECA for ASEAN-A and ASEAN-B countries have been calculated (Table 9). Here only simple average total duty has been taken as matching import value figures are not readily available for weighting. The results need to be taken only as indicative.

Table 9 : India's BCD, Preferential Duty and Total Duty in India Singapore CECA and India ASEAN CECA

FTA/PTA	BCD Simple Average	Preferential -Simple Average	Total Duties-Simple Average
Singapore	10.0	2.1	18.6
ASEAN-A	11.4	1.0	15.8
ASEAN-B	11.4	1.5	16.3

Source: Computed from Academy of Business Studies: CUSTADA database

While the simple average Preferential duties are 2.1% (0.7% as per WITS), simple average total duties are high at 18.6% which is nearly double the BCD. This is due to IGST and SWS. Similarly, for ASEAN-A and ASEAN-B countries, simple average BCD is 11.4% for both ASEAN A and ASEAN B and simple average preferential duties are 1.0%/1.5%, but simple average total duties are higher at 15.8%/16.3%.

Sector-wise total duties for Singapore and ASEAN shows that relatively higher IGST along with SWS of 10% act as additional protective measures in some sectors. While for IGST, ITC can be claimed, SWS has to be paid.

While GST/VAT is applied on imports besides customs duties in other FTA partner countries also, the difference is in the relatively lower rates in FTA Countries like Singapore (7%), Japan (8%), Thailand (7%), etc., while for some other countries like Indonesia (10%), Korea (10%), Philippines (12%) it is near the average IGST rate of India of 15.8%.

India's Tariffs for FTAs and Vice-Versa : By Stages of Processing

India's integration into the Global Value Chains (GVCs) in the context of tariffs in FTAs can be gauged by seeing the Tariffs over the years by type of processing. This is examined for India's imports from some important FTAs.

India's Tariffs for FTAs shows that while FTAs have resulted in lower Tariffs by India for its imports from FTAs at different stages of processing, there are some differences between them and particularly for Raw materials. As per the simple average, India's preferential tariffs for raw materials are relatively high in the case of imports from Japan, Republic of Korea and APTA and only for APTA as per weighted tariffs. In the case of APTA, weighted tariff even for consumer goods imports is relatively high. Effective tariff (simple) is however relatively high for raw materials imports from Japan, Malaysia, Singapore, Thailand, APTA and ASEAN. Raw material imports even have relatively higher average weighted Effective tariffs for imports from Republic of Korea, Thailand and APTA.

Similarly, for consumer goods imports, Effective tariff (simple) is relatively high for Japan, Republic of Korea, Malaysia, Singapore, Thailand, APTA and ASEAN and effective weighted tariff is high for imports from Japan, Malaysia, Singapore, APTA and ASEAN.

Thus, raw materials imports by India face relatively higher preferential tariffs (simple average) or effective tariffs or both in many FTAs. Similarly, India's consumer goods imports also face relatively higher effective tariffs (simple and weighted) in many FTAs. So, there is a need to ensure that preferential tariffs by India are low for raw materials, in general, and for low weighted raw materials imports in particular. Exceptions can be for sensitive items especially in Agriculture sector.

The preferential tariffs of India's FTA partners for imports from India, indicates that the main beneficiary is intermediate goods, while raw materials face higher tariffs. Consumer goods imports from India by Singapore and ASEAN, also increased after the implementation of CECAs, though it is not related to tariffs which were 0 in Singapore even earlier, while it was high in ASEAN even in 2018.

In balance, India's FTAs have resulted in lower preferential tariffs for India's FTA partners in different stages of processing helping to integrate into the value chains of production, though in the case of India's raw materials imports, preferential and effective tariffs are relatively high for some FTAs. The tariffs for India by India's FTA partners show that mainly India's exports of intermediate goods to these countries have benefited. Thus, the tariff structure in the context of FTAs has possibly helped mainly in the integration of India's Intermediate goods in the global value chains through the forward linkages in India's exports rather than finished or consumer goods. India faces a tariff disadvantage compared to the World for its raw materials exports in many FTAs. This is possibly a pointer that India's FTA partners are giving more concessions to other countries in their other FTAs. It could also be due to the differing composition of the raw materials import basket from India and the World by these FTAs.

INDIA'S GENERAL AND PREFERENTIAL TARIFFS: SOME SECTOR-SPECIFIC ISSUES AND SUGGESTIONS

Rationalizing MFN and Preferential Tariffs in Different Sectors

In this report an attempt has also been made to list out issues and cases for rationalization for different sectors including lowering or raising tariffs both General and for FTAs and listing some remaining cases of inverted duty structure in the industrial sector. This is not an exhaustive list, but only an indicative list.

Agricultural Sector

Natural rubber (NR)

NR is not covered by the Agreement on Agriculture (AoA) though it is an agricultural product and NR was not protected under the WTO Agreement due to irrational product coverage. Other industrial raw materials like cotton, wool, flax and silk are included in the product coverage of AoA and hence have the bound rate at 100% for primary products and 150% for processed products, whereas the bound rate of dry forms of NR is only 25%. The applied Import tariff on NR is 25% or Rs 30 per kg whichever is lower for Dry forms of NR and 70% or Rs 49/- per kg whichever is lower for Latex. Import duty for latex is relatively high but latex accounts only for around 7% of NR consumption in India and less than 2% of it is imported. This has affected the rubber sector in India adversely. Imports of Natural Rubber has increased mainly from Indonesia, Malaysia, Thailand, Singapore and Vietnam. Domestic price has come down much below the Cost of Production resulting in huge loss to producers which has compelled many producers not to tap rubber, thus reducing the total production.

Tariff lines on NR under HS 4001 were included in exclusion/negative lists in all major FTAs (except SAFTA). Under SAFTA, NR is allowed to be imported from least developed country members at zero duty from 2011. Least developed country members of SAFTA are Nepal, Bhutan, Bangladesh, Afghanistan and Maldives. Among these countries, Bangladesh is the only producer of NR and hence NR can be imported into India at zero duty from Bangladesh. Tariff concessions were also given under APTA, by applying a 20% tariff with effect from 1st July 2018. NR also faces stiff competition from imported low tariffed synthetic rubber

In view of the above facts, Tariffs should not be lowered for Natural Rubber in general. As regards APTA and other FTAs for which concessions are given, they are not major exporters and the threat is less. But rules of origin should be implemented strictly. Though production and export of NR by Bangladesh is not high given the stagnating low prices of Rubber, import of NR from Bangladesh needs to be monitored regularly particularly to prevent third country import through the country.

Tea

India's MFN tariff for tea was fixed at 100%. Besides its competitive disadvantage compared to other producing countries, in India, there is an additional burden on account of social costs mandated by the Plantation Labour Act 1951. Black Tea falls under Special products as per India-ASEAN CECA and the applied MFN tariff rate has been reduced annually from the base rate of 100% to 45% in 2019 as per a fixed time table from 2010. India also does not have a robust "Place of Origin" mechanism in place and thus the above reduction in Import tariff opens the Indian market, to the FTA countries in ASEAN like Indonesia and Vietnam which are also major Tea producing countries. **So, while the preferential tariffs under India-ASEAN CECA need to be reviewed, any further tariff reduction could result in large imports to the huge domestic market from these countries which have a low cost of production.**

There are some opportunities for negotiating tariff reduction by India's FTA partners. With the stagnant Sri Lankan production, India has an opportunity to request for 100% duty concession instead of present Tariff Rate Quota arrangement in the forthcoming Economic and Technology Cooperation Agreement (ETCA) meeting. India also needs to negotiate with Japan to reduce Tariffs on Indian Tea at least up to the preferential tariff extended to Indonesia by Japan.

Another issue in the case of Tea is the use of Teabags and multi-wall paper sacks which are rapidly increasing in the World Tea market. As a result, the demand for filter paper, nylon cloth, etc. which are used to make tea bags have been rising. These products are neither available in the domestic market, nor are they of the desired quality. Particularly 'filter paper' continues to be unavailable domestically. The total incidence of duty on the importation of these products is high. **Since these items are of vital importance to scale up value addition and exports there is a need to consider lowering tariffs for these items particularly filter paper.**

Coffee

Like Tea, the import tariff of Coffee was also fixed at 100% considering India's comparative disadvantages. Tariff for green beans imports for domestic use is 100% and is needed to protect the domestic growers. **While zero duty imports have been allowed for value addition purpose, proper controls should be in place to see that zero duty imports are not used for the domestic market.**

Pepper

Pepper has an import duty of 70% at present. While the cost of production of Pepper is Rs.500/Kg, the price of pepper which in 2015-16 and 2016-17 was around Rs.700/- has now come down to Rs.300/- with imports of $ 124.1 million in 2018-19 mainly from Sri Lanka, Vietnam and Indonesia. Domestic Market Price has already crashed. While the Government of India imposed minimum import price on Pepper, challenges are faced by the predominantly marginal & small growers of Black Pepper in Karnataka, Kerala and Tamil Nadu.

Inclusion of pepper in some FTAs with differing tariff concessions is causing problems. India has preferential tariffs under three different bilateral agreements for Black Pepper which is a sensitive item. Under ASEAN, duty payable is 51% whereas under Indo Sri Lanka Free Trade Agreement (ISFTA) and SAFTA the duties are zero percent and 8%. So, diversion of Pepper to avail the best preferential duty is resorted to by unscrupulous elements who reroute Pepper of Vietnamese or Indonesian origin via Sri Lanka. In Sri Lanka, importers manage to get the certificate of origin of Sri Lanka easily for Pepper originating from Vietnam or Indonesia which is of poor quality with chemical residues and avail the benefits under these FTAs. Some exporters are importing Pepper from Vietnam with duty rebates and the same gets retained and sold in India. Instead of re-exporting Vietnam pepper with value addition, Indian grown Pepper is rebagged and exported as processed/sterilized Vietnam Pepper to get the entire import duty credited back to their account. The inferior quality imported Vietnam Pepper is also blended with Indian Pepper spoiling the quality and reputation of Indian Quality Pepper domestically and internationally. Large quantities of pepper are also being smuggled into India via Nepal, Myanmar and Bangladesh borders.

In view of the above, Pepper should not be included in any new FTA and Minimum Import Price of Rs.500/- needs to be continued. The above also indicates the need for having a uniform preferential tariff under all FTAs for a particular item, including for Pepper. Given the continuation of low prices for Pepper in the last few years there is a need for renegotiation of tariff concessions given to FTAs along with measures like a cap on import quantity for SAARC countries equal to surplus production; scrutinizing all duty refunds on re-exports as re-exports are sometimes done even without value addition only to get refunds; monitoring imports under Indo-Sri Lanka FTA and ASEAN route; and finally imposing a ban on imports from those countries which do not grow Black Pepper even if they are part of any FTA of India.

Arecanut

Arecanut has 100% import duty at present. India produces more than 50% of the World production of Arecanut and about 10 million people depend on this Crop. Import duty exemptions/ concessions are given to goods imported from Myanmar through Land including Arecanut/Betelnut. SAFTA LDCs (including Bangladesh, Bhutan, Maldives, Nepal, Afghanistan) have been extended 0% duty. Similarly, India's preferential tariff for Srilanka is 0%, SAFTA 8%, SAPTA 50% and SAPTA LDCs 40%. Imports are mainly from Srilanka and Indonesia though there are reports of informal or illegal imports from Myanamar.

Some important points related to Arecanut are the following. India is self-sufficient in Arecanut and produces more than 50% of the World production of Arecanut, though consumption of Arecanut is decreasing. The cost of production for other countries is less as it is a Forest Crop, Free import also results in dumping of inferior quality Arecanut. States are banning gutka resulting in reduced consumption of Arecanut. So, there is no rationale to allow imports which will only hurt domestic cultivators.

In view of the above, there is no need to include Arecanut in any FTA. In fact there is a need to review the current LDC concessions to Myanmar and include Arecanut in the Exclusion List.

Cashew

The raw material of this industry - Raw Cashew nut in shell is subjected to an import duty of 2.5% and the Industry demands is higher than production. **Therefore, till Indian output grows to this size, lowering Import duty on Raw Cashewnut in Shell can be considered.**

However, in the case of other categories of Cashewnut under GSTP, India has extended duty-free imports for LDC countries. This has resulted in large imports from these countries as these countries do not have an internal market for this commodity. **So, for other categories of Cashew, there is a need to review the concessions to some LDCs.**

Rice

India is a net exporter of Rice. The tariff issue, in this case, is related to the high tariffs by Japan, India's FTA partner compared to India's tariff for Japan. Added to this India has extended preferential tariffs to Japan for 'other Rice'. **The high tariff by Japan for Rice could be considered while reviewing FTA with Japan.**

Another related issue is India getting less favorable treatment from India's FTA partners compared to the higher tariff concessions given by them to India's competitors. There is a great disparity in the tariffs extended for Rice by Sri Lanka to India in comparison to both the concessions extended by India to Sri Lanka and the concessions extended by Sri Lanka to Pakistan. This needs to be considered during the next review of India-Sri Lanka FTA. **So, any tariff rationalization policy with respect to FTAs should also consider whether fair treatment is extended to India by its FTA partner and negotiate for the same.**

Oilseeds

In the case of Indian groundnut and sesame seeds, import tariffs in China are 15% and 9% respectively for India, whereas, African countries enjoy duty free access. So, under APTA, India can negotiate for zero duty access to China's market for these items.

Non-Agricultural Sector

Electronics Sector

This sector has been badly affected by ITA1 with 217 tariff lines at zero duty since April 2005. By the time the ITA1 was implemented, the Newly Industrialized Countries (NICs) of Asia had become competitive in this sector, while India was just entering this sector. Thus, ITA1 badly affected the domestic Electronics sector. **So, the option of lowering tariffs in this sector is limited except for inputs needed to strengthen domestic manufacturing. A carefully thought out tariff rationalization policy is needed if India has to make up for the loss in missing the bus and make its dream of 'Make in India' a reality in the semiconductor sector.**

Budget 2020-2021, has taken some steps to help the electronics sector. Going forward, while for some items like Digital Projectors, tariffs can be reduced from 40% to possibly 20%, for some items, there is a need to consider raising tariffs. A number of products have 10% duty which is not sufficient to protect the still nascent domestic sector. So, for products not listed under ITA-1, import tariffs could be raised to 20%. In fact, import duty on all electronic finished products and Tier-I subassemblies could be increased to 20% under the PMP. Since import duty can be offset if inputs are used for exports, the net duty impact on exports is nil.

BCD exemptions excluded for some items can be reinstated to help domestic manufacturing. Since India has a high potential to export Optical Fiber (OF)/Optical Fiber Cables (OFC), some items which were excluded from BCD exemptions could be reinstated in the list of exemptions. These include High Density Polyethylene (HDPE) (code 39012000) and Water Blocking Tape (code 56030000). Further in October, 2019 along with other related items, Anti-Dumping Duty (ADD) was imposed on Co-Polymer coated MS Tape/Stainless Steel Tape (code 72124000) which is a raw material for manufacturing of OF/OFC. There is a need to consider withdrawing ADD from this item to help manufacturing of OF/OFC.

BCD exemptions given to some items can also be withdrawn to help domestic manufacturing. There are some finished goods where Basic Customs duty exemption is given like Data Cables (854449) as an ITA bound exemption. This makes domestic manufacturers of data cables economically unviable. Similarly, in some Fiber to The Home (FTTH) components, India is now able to produce domestically, but is facing competition from imports due to BCD exemptions given to them. So, for these items including Fiber Optic Cable Assembly, Fibre Optic Attenuator and Fibre Optic Adapter, there is a need to consider withdrawing BCD exemptions to help domestic manufacturing. While the WTO bound duties of India in some of these items are 0, for some it is not and some are only partially covered under ITA1. There is a need to see if duties can be increased for some items. In fact for some items like Fibre Optic Adapter, the Basic Customs Duty (Schedule) is 15%, but by Notification, it is 7.5%.

While the multilateral agreement of ITA 1 has adversely affected the electronics manufacturing industry, now with FTA with ASEAN countries, several items are being imported through ASEAN countries rather than China, in order to avail zero duties under FTAs. India should be particularly careful in giving free access for electronics goods if it wants 'Make in India' to be successful in this sector. So, in the FTA with ASEAN, there is a need to ensure that local value addition norms are adhered to, and that certificate of origin is a genuine document.

In the FTA with Japan and Korea, BCD on Optical Fibre/Optical Fibre Cable (code 90011000) and the optical element of Silica Preform (codes 70140020/700202090) (which are finished products) have been reduced to 1.8% and 0% respectively. This has affected India's domestic manufacturing of these items. Tariffs for these items need to be renegotiated. Further import duties on raw materials of optical fibre/optical fibre cable like HDPE (code 39012000), Co-Polymer Coated MS Tape/Stainless Steel tape (code 72124000) and Water Blocking tape (code 56030000) can be reduced by India in the case of these FTAs suo motu.

In the Electronics goods sector, there is also the issue of inverted duty structure. Besides the inverted duty created by ITA1 under which many finished goods items came under zero duty, at present, the FTAs are creating a new form of inverted duty. The finished goods such as washing machines, TVs, Refrigerators, etc. are imported under Indo ASEAN FTA at low/zero duty, while its key inputs such as plastics and metals have 7.5% or 10% tariffs.

The Optical Fibre/Optical Fibre Cables industry which faces competition from global players of

USA, Japan, Korea, China and Europe and where heavy investment has been made suffers from inverted duty structure. This is because BCD on OF/OFC has fallen under FTA with Japan and Korea to 1.80% and 0% respectively. Further OFC is imported duty free due to BCD exemptions. Thus, the inverted duty structure is affecting the competitiveness of this sector.

Textiles & Clothing

In the textiles sector, there are many specific duties which need to be converted to ad valorem tariffs to the extent possible.

In the case of Apparels, most of the FTAs have not benefited the textile value chain of India much. While the preferential concessions to Bangladesh have resulted in a net increase in imports, the India-Japan CEPA, which should have led to an increase in India's exports of garments, has not seen the desired results yet. India's import tariff on a majority of apparel items (chapter 61 & 62) at 25% is also relatively higher than the prevailing rates in many of the partner countries with which India has FTAs or proposes to have FTAs. So, there is scope for a gradual reduction of tariffs so that the industry can align to some of the proposed FTAs. **Therefore, Preferential Tariffs can be reduced to negotiate new FTAs/RTAs if not general tariffs.**

In the case of cotton textiles (yarns, fabrics and made-ups), Agreements like the APTA, India ASEAN CECA, SAFTA, India-South Korea CEPA and India- Japan CEPA have not led to adverse impact on India's export of cotton textiles. However, India-South Korea CEPA needs to be renegotiated for some cotton yarn items. The Rules of Origin within SAFTA and with Bangladesh also needs to be reviewed so that garments made from Chinese fabrics do not enter into India duty-free. Anti-surge clauses also need to be incorporated in the SAFTA Agreement.

Leather and Leather Products

The Existing MFN tariff in India for import of footwear is 25% which in fact was increased from 10% to 20% in the Union Budget 2018-19 and was further increased from 20% to 25% with effect from Sept. 27, 2018. The GST rate is 5% for footwear with retail sale price up to Rs.1000 and 18% for other footwear. However, the applied duty for top suppliers of footwear particularly from ASEAN is less due to duty concessions offered by India under different Trade Agreements. These concessions under different FTAs have resulted in increased imports of cheap footwear with China and Vietnam having a share of around 72% of leather footwear imported into India during 2017-18. The average unit price of imported footwear is also much less when compared to the average unit price of footwear exported from India. **So, suitable Minimum Import Price (MIP) per pair needs to be fixed for footwear imported into India from FTAs to prevent dumping of cheap footwear along with reviewing tariff concessions.**

Tariffs can be lowered for some inputs needed for non-leather footwear like PU/PVC/ PU Coated Fabrics to increase the price competitiveness of the domestic footwear industry. There can be general exemptions for some FTAs.

There are cases of disparity of tariff concessions by India's FTA partners to India compared to its competitors. Under India-Japan CEPA, Japan is providing more tariff concessions to competing countries like Vietnam and Thailand for some categories of footwear than for India.

To promote domestic manufacturing and export of leather products under Chapter 42 and to avoid inverted duty structure, the Basic Customs duty on lining/interlining materials could be reduced to say 10%. Since Textiles and Apparel sector has relatively high tariffs, this can also help in rationalizing tariffs in textiles sector.

Engineering Goods

The Engineering goods sector is an important sector of India's exports and also in the 'Make in India' plan. This sector has been adversely affected by FTAs mainly with Japan, Korea and ASEAN which are also India's competitors. Some examples of the adverse effects of FTAs on Engineering sector are the following. In the case of Steel, 74% of the steel imports in India are from Japan and Korea at a much lower tariff under the FTAs affecting the domestic sector. In the case of Air conditioner, the AC machines are covered under the India-ASEAN FTA (5% preferential tariff) whereas the AC compressors are not covered (10% MFN). Hence, AC manufacturers from other East Asian countries set up their shops in ASEAN and import fully assembled AC machines under the preferential route to India rather than the compressors. This adversely impacts the industry in India. It is also a growing trend that many Chinese engineering goods manufacturers are setting up shops in India's FTA partner countries and exporting products directly to India under the preferential route.

While some FTAs are already being reviewed, other FTAs also need to be reviewed. The Government has also indicated now that all FTAs will be reviewed. Under the FTAs, most of the engineering goods are imported duty free while a few goods which belong to the negative/ sensitive list such as automotive, electrical machinery, products of iron and steel, etc. have high duty. Lowering the duty of those products may have an adverse impact on domestic industries as imports will be cheaper.

Rubber Tyre Manufacturing

There are a large number of Raw Materials (used in the manufacture of Tyres) other than NR where there is a shortage in the domestic sector. Besides some raw materials are not produced domestically at all. Tariffs for these items could possibly be reduced.

In order to arrest the increase in Tyre Imports, increasing the customs duty on Tyres from the existing rate of 10%/15%, to a higher rate of duty, say 40% can also be considered. To help rubber products manufacturers, India raised tariffs on two major items viz., radial car tyres and truck/bus tyres from 10% to 15% in 2018. To further help domestic rubber production, tariffs for rubber products falling under HS 40 with the present tariff of 10% can also be considered for an increase to 15% as done in the case of car and truck/bus radial tyres. Since non-tyre rubber products are mainly manufactured by MSMEs there is further reason to increase the tariff to 15%. Minimum reference /benchmark price can also be fixed on all Truck /Bus (Radial) tyre imports from China & Thailand to check dumping.

Indian Rubber Tyre manufacturing industry has been adversely affected by India's FTAs. Although the current MFN tariff (BCD) on tyres is 10% (15% for Truck & Bus Radial Tyres and Passenger Car Radial Tyres), the same under various Trade Agreements is even lower. A significant percentage of Tyre Imports into India is from countries which are signatories to FTAs allowing Tyre imports at a lower rate of duty. In other words, the effectively applied tariff on Tyres is even lower (ranging between 'nil' to 12.9%) than the Basic Customs Duty on Tyres. Low preferential import tariffs in India have encouraged a large & growing volume of tyre imports, despite adequate domestic capacity already in place & investments made in new capacity creation.

Since tariff concessions under APTA and India-ASEAN FTA have adversely affected the Indian rubber product manufacturing sector, especially units in the MSME sector, tariff concessions under these Agreements may need a relook.

Chemicals

There are some items with MFN tariffs above 10% in this sector. In the Union Budget 2018-19 presented in Feb 2018, the Basic Customs Duty on certain items imported under chapter 33 was increased from 10% to 20% basically to protect the domestic industry. The items having import duty of 10% and above in chemicals are mainly the items from Chapter 33 (cosmetics). **Many of these items are being imported from FTA partners (Korea, Malaysia, ASEAN, besides Nepal and SAFTA) under preferential duty ranging from 17% to 0%. So, tariff reduction at least to the average effective duty level is not likely to adversely affect these items much.**

Sports Goods

Indian sports goods and toys sector is dependent on Imports of a variety of Components. These items attract high tariffs. The customs duty on raw materials used by the Industry needs to be reduced.

In most of the FTAs although India has included Chapter 95 in its list of items, the partner countries have either excluded the same or kept it in the EL category. So, there is a need to include chapter 95 in the partner countries List.

There are also some items having an inverted duty structure like Cane used to manufacture Cricket Bat handles having customs duty of 30% while cricket bats have a customs duty of 10%. Similarly, fabric and filling fibers (Chapter 60) used in manufacturing soft toys have a customs duty of 25% while soft toys have a duty of 10%. These need to be addressed.

Shipping

Though shipping is a service, there is one main tariff-related issue of import of shipping vessels. Certain types of shipping vessels are subject to imposition of customs duty, as well as a surcharge. This includes Anchor Handling Tug-cum-Supply Vessels, Multipurpose Platform Supply & Support Vessels, Fire Fighting-cum-Safety Vessels, Well Stimulation Vessels, Jack-up Rigs, Production platforms, and Floating Production, Storage and Offloading Unit Drillships. A foreign maritime services provider has no commensurate liabilities, and can hence provide similar services at much more competitive rates.

Various duties, taxes and surcharges are levied on an Indian shipping provider for use of any input goods and input services. The input services for the maritime service sector are zero-rated in most countries worldwide. This makes foreign shipping vessels more competitive, because of the lower costs for their operations.

Besides the Tariff levied on ships imported, tax is also levied on Input goods like IFO, Lubes, Paints, Spares and also on Input services. Even a 5-10% tariff will have a large impact on this capital-intensive sector. Meanwhile, Foreign shipping services are not taxed on any comparable parameter, thereby giving them a comparative advantage.

In fact a type of inverted duty structure has emerged in the shipping sector as shipping services have no tariffs but the import of all other inputs of goods and services like ships, fuel oil, ship spare, insurance etc. all attract import duties, effectively incentivizing imports of shipping services rather than facilitating/setting up and expanding the use of Indian shipping services. This anomaly needs to be addressed if India desires to have strong domestic shipping.

Thus, the sector-specific analysis indicates that there are cases where tariffs can be increased and cases where it can be decreased. There are also many FTA related issues, while inverted duty structure issues have become less, though some remain or have cropped up. Any tariff rationalization policy should carefully examine these sector-specific issues also before arriving at general policy measures.

India entering into New FTAs : Sectoral Impact

The second issue to be examined here is the need to enter into new FTAs from the point of view of different sectors. While ongoing negotiations are taking place to conclude new FTAs or expand existing ones, the two recent and important RTAs/FTAs being discussed are the RCEP and Indo-US FTA. Besides some other FTAs have been suggested by stakeholders.

1. RCEP

While India joining the RCEP has been put on hold for the present, one cannot rule out pressure building up again to join the RCEP. India needs to weigh the options carefully, lest it gets into a catch-22 situation.

Agricultural Sector

Natural rubber and products

Since, RCEP region accounts for 90% of NR production, any tariff concession to RCEP would be detrimental to the interests of NR growers in India.

In the case of Rubber products, China and South Korea already get tariff concessions for rubber products through APTA. Indian rubber products industry has been complaining of dumping of rubber products by China along with a high level of subsidization and DGTR has already imposed an antidumping duty on tyres imported from China. Though China is a part of APTA, under RCEP it will enter the Indian market in a big way. Hence if tariff concessions are to be offered for rubber products to RCEP Countries it needs to be fixed at the levels of concessions already offered under APTA.

Tea

Since China mostly produces and exports Green tea and India mostly produces and exports Black tea, tariff reduction through RCEP should not pose a major threat to Indian tea industry. There is also the view that the major threat under RCEP is China, which is one of the largest producers of Tea. China's ability to produce to the needs of the export market in a short time, is a big threat to the Indian tea sector.

The important question is, if India joins RCEP, whether China will be able to get Indian market access at 45% tariff as applicable for the ASEAN countries as per AIFTA and whether India will be able to get Chinese market access at 0 tariffs to China as per existing ACFTA or whether any other duty structure will evolve for all RCEP participating countries.

One more thing to be noted is that despite the low cost of production and tariff being reduced for the ASEAN countries, no substantial imports to India from these countries has been noticed in recent times.

Coffee

As there are some coffee growing countries like Vietnam and Indonesia in this agreement, there is a high possibility of cheaper coffee from these countries being brought to India. With cheaper imported coffee for domestic use, the lower grades of Indian coffee may remain unsold resulting in a disastrous price situation for Indian coffee growers already in trouble due to low prices.

Pepper

Already Pepper is affected by existing FTAs. RCEP will further aggravate the situation and lead to further dumping affecting local farmers and impacting domestic cultivation and industry. This also has livelihood concerns. Due to multiple trade agreements - bilateral with Sri Lanka and multilateral with SAARC (SAFTA) & ASEAN, pepper imports have increased and pepper prices have crashed. Imports are mainly from Sri Lanka, Vietnam and Indonesia. Any further duty concessions under RCEP will be detrimental to this already battered sector.

Non-Agricultural Sector

Electronics sector

At present India is a part of a limited PTA with China (APTA). Becoming a member of RCEP implies that India will be part of an FTA with China. India's 15 years of experience with ITA 1 shows that India is not cost competitive in comparison to China, despite several industry and government efforts. India does not have a level playing field and India will not be able to compete at zero-import duty. China with its satellite nations will ring-fence the value addition under the clause in RCEP that permits cumulation of value addition. So for the semiconductor sector, India joining the RCEP is not advisable.

Textiles and Clothing

There are many textiles manufacturing countries in RCEP including China. RCEP requires India to lower import duties on various items. So, the apparels sector had reacted very cautiously to the RCEP. Adequate safeguard in terms of surge clauses, staging of tariff reduction, Rules of Origin, need to be carefully worked out, in case India has compelling reasons to join the RCEP.

Leather and Leather Products

Leather and Leather Products may benefit due to RCEP. During 2018-19, India's total export of leather, leather products and footwear was US$ 5691 million and around 11% of this (US$ 627.31 million) was directed to RCEP countries. Finished Leather forms about 53% of exports to RCEP countries, but there is scope to export leather footwear, leather goods like handbags, wallets/ purses, leather garments, leather gloves and footwear components also to these countries.

In the case of Footwear (Chapter 64), considering export interest, except for China and ASEAN countries, immediate 0% duty can be considered for other RCEP countries. In the case of Footwear Components (6406), immediate 0% duty can be considered by India for these items, on a reciprocal basis.

Engineering Goods

During the inception of the RCEP negotiations, Engineering Industry had cautioned about the threat of having China in the agreement. A differential tariff structure under RCEP for China is needed with minimal tariff liberalization for China, in case of any future negotiations on RCEP by India.

Sports Goods

India is not likely to gain much from RCEP, instead, it may lose.

Rubber Tyre Manufacturing

Tyre imports from RCEP countries to India account for 75% – 80% share of the total Tyre imports into India. Any further concessions provided to Tyre imports from RCEP countries into India will severely injure the domestic Tyre Industry. So, in case of any further negotiations on RCEP, Rubber products should not be considered for any concessions and placed under the Exclusion List.

Thus, the reception by stakeholders for RCEP has been rather cold, except for the Leather and Leather Products sector. Thus, it may not be advisable for India to join RCEP. Even if it joins

RCEP, it should have a separate dispensation for China with minimal offers and sensitive items should be in a negative list.

2. India-US FTA

Currently there is a lot of interest and talk on a possible India-US FTA. USA has in a way already cleared the decks by withdrawing GSP benefits to India making India to negotiate on what was earlier granted. While India can negotiate separately on GSP, US may likely make it a part of the proposed India-US FTA. The views of the different stakeholders are given below.

<u>Agricultural Sector</u>

Natural Rubber

NR sector will not be adversely affected by FTA with the US as the US is not a producer of NR and the export of NR to US from India is marginal. The US is the major destination of Indian rubber products. Hence any tariff concessions under Indo-US FTA will help Indian rubber products manufacturing sector.

Cashew

India-US FTA can help the Cashew sector as Cashew Kernels being a healthy food can qualify for duty concessions in the US.

Other Agricultural Items

Some sensitive Agricultural items are Dairy and related products that affect the Indian farmers. The agricultural sector is highly subsidized in the US. The US provided US$ 22.2 billion direct and indirect subsidies to the US Dairy Sector in 2015 (Newswire 2018). Thus, US dairy producers received a subsidy of approximately $35.02/hectoliter- the equivalent of 73% of the farmers' market place revenue. Thus, it is a non-level playing field. So, these items, need to be kept under the negative list in the proposed India-US FTA.

<u>Non-Agricultural Sector</u>

Engineering goods

Unlike other FTAs where Agricultural items are sensitive items, in the case of Indo-US FTA, Engineering goods could be sensitive items. In fact, the Indo-US trade conflict in 2018 started due to engineering goods with US levying/increasing tariffs on Steel and Aluminum products. India's retaliatory tariffs on US also include, many Iron & Steel items. Given the sensitivity of US-India relations, negotiating an FTA without proper caution may lead to unwarranted fall in tariffs in some items resulting in the higher import of the items presently manufactured in India. So, a careful examination of the items is needed before going ahead with any negotiations from the point of view of the Engineering sector.

Textiles and Apparels

The USA being the largest single destination for exports for garments, the garments industry has been seeking an FTA with the USA. It will surely give India some competitive advantage over Vietnam and Bangladesh - one with already some preferential access to USA and the other, a major competitor in this market. The cost differential with Bangladesh is around 20%. A preferential agreement that dilutes this cost differential substantially, will have a positive impact. Thus, India may benefit in this important sector due to Indo-US FTA which possibly even the abolition of the Multi-Fibre Agreement could not do.

Electronics

Indo-US FTA with zero to low duties for India's OF/OFC sector by USA would help India's optical fibre sector as at present the US has withdrawn GSP benefits to Optical Fibre/Optical Fibre Cable and structured data cable.

However, for some other segments like Consumer Electronics, FTA with USA may not be a good idea as India may stop becoming a manufacturing centre for these items.

So, there is a need for caution while giving India's offers to USA and India should not commit the same mistake done in the case of ITA1 where zero duty was given in many items that did not allow the semiconductor sector to grow in India.

Leather and Leather Products

The USA accounts for 15.7% of total export of leather, leather products and footwear from India and is now India's largest market. For this sector a Free Trade Agreement with USA will help in significantly enhancing India's market share in USA.

Sports Goods

USA is a major consumer and is the biggest importer of sports goods. With the withdrawal of the GSP benefit, India needs to have some sort of an agreement with the US so that India is at least on par with its major competitors for the sector. So, India-US FTA is needed for this sector.

Gems and Jewellery

If reciprocal duty exemptions are granted on import of gems & jewellery related raw materials and machinery from the US to India and export of finished jewellery from India to the US, there is scope for substantially increasing India's exports of gems & jewellery to US. Thus India-US FTA can be beneficial for this sector.

Thus, in terms of tariffs, except the Engineering goods sector which is a heavy-weight sector, some segments of Electronics sector and some sensitive agricultural items like dairy and related products, most of the sectors are positive about India-US FTA. However, broader consultation

with stakeholders in India is needed before finalizing the FTA with USA. Some of the sticky issues are the restoration of GSP benefits to India and the issue of reinstating India to the developing country list on the US side. On the Indian side, the sticky issues are lowering import duties on high-end motorbikes like Harley Davidson motorbike, dismantling retaliatory tariffs on US items like almonds, walnuts and pulses and giving market access to dairy and related products. Tariff on Iron & Steel and related engineering goods appear on both sides of the negotiating table. Besides issues other than tariffs will also come up like Intellectual Property (IP), Rules of Origin, Dispute Settlement Mechanism, Social and Environmental Compliances, etc.

3. Forming other FTAs or Renegotiating old FTAs

Some other FTAs suggested by different stakeholders are given below.

Agricultural Sector

Coffee

In the case of Coffee, tariff asymmetry is affecting the export potential of Coffee in major/potential markets. India's FTA partner countries like South Korea, the Philippines (ASEAN), China (APTA) have extended more concessions to other countries. This implies that they can also give better concessions to India and this needs to be negotiated during the Review of FTAs and bilateral meetings.

Cashew

New FTA with Australia, Korea, Russia and China with zero duty for cashew kernels would be beneficial for this sector.

Rice

There is a need to renegotiate India-Sri Lanka FTA since India has a stake in the export of Rice to Sri Lanka and not vice versa.

Non-Agricultural Sector

Textiles And Clothing

Most of the present FTAs have not benefitted the Apparels sector much, as these have not been apparel centric markets.

European Union and Vietnam have signed a long-awaited free trade deal that will slash duties on almost all goods. This will give India a duty disadvantage of 9.6% in EU market as compared to Vietnam. India already has a duty disadvantage with competitors like Bangladesh, Pakistan, Cambodia & Sri Lanka. Therefore, an FTA with the EU can help the textiles and clothing sector. If India is Included in GSP+ category by EU till an FTA is concluded it can help India. Having a CECA/

CEPA with Australia and Canada can also help India's Garments sector. The additional exports from FTAs with EU, Canada and Australia is estimated at $10.3 billion for three years.

In the case of Textiles, a 'zero for zero' tariff can be negotiated with the EU. Although China is under the APTA Agreement, it would be worthwhile to pursue with China to increase its Margin of Preference for select yarns & fabrics imports from India so that India can gain further market access.

Leather and Leather Products

European Union is India's largest market with a 54% share in total exports of finished leather, leather products and footwear from India. European Union has extended GSP facility for finished leather, leather products and footwear exported from India. But GSP is not zero for all items. India's market share in the EU is only about 4%. Hence, an early conclusion of a free trade agreement with the European Union with zero duty facility for finished leather, leather products and footwear can help in India's exports of this sector.

Engineering Goods

India can have FTAs with African countries, Eurasia, GCC countries and Latin American countries other than MERCOSUR and Chile (with which India already has FTAs/RTAs) as there are significant untapped opportunities. FTAs with these countries can help India's Engineering Exports.

Electronics Sector

From the tariff angle, the import duty of most components for electronic manufacturing is already Zero. Electronic items should be excluded in all FTAs till India becomes competitive in these items.

In fact for Electronics items, tariffs in some of our markets are not low. For example, in South Africa, import duty for OF/OFC from India is 15%, whereas for imports from the EU it is Zero duties. This needs to be addressed in bilateral negotiations or in case of having an FTA with South Africa.

Sports Goods

FTA with the LAC region has huge potential for sports goods exports. Currently, India is a member of MERCOSUR, but Chapter 95 is not included for Tariff concessions by any of the partner countries. So, sports goods could be included for re-negotiations with MERCOSUR.

Thus, in the Agricultural sector, higher concessions are given by India's FTA partners like Japan, South Korea, China and the Philippines to other countries compared to India with respect to Coffee. Other markets like the EU, Russia and Turkey also give higher concessions to other competitors of India. There is scope to negotiate with these countries, though political factors will also be important as in the case of Turkey. In the case of other plantation and agricultural items, it is not desirable to go for new FTAs as India has many restrictions on land usage which other countries do not have. Unless there is parity with respect to Rules and Regulations, it is not advisable to go in for new FTAs. Plantation commodities should not be included in future FTAs and wherever included in present

FTAs, there is a need for renegotiations in many areas.

In the Non-Agricultural sector, the views are varied. While FTA with EU, Canada and Australia seem beneficial for Textiles and Clothing Sector, an early conclusion of FTA with EU would be beneficial for the Leather & Footwear Sector. While FTAs with African countries, GCC countries, Eurasia and Latin American countries could help the Engineering Sector, FTAs are unlikely to benefit the Electronics Sector.

The sector–specific analysis of tariffs shows the varied nature of interests and issues in different sectors. Some sectors/items need higher tariffs and some lower. In some sectors, inverted duties continue. The experiences of FTAs, sector-wise is also varied. While most of the stakeholders have reservations regarding RCEP, many are positive about Indo-US FTA. The different stakeholders have also suggested many new FTAs. Since the interests are varied, the options should be weighed carefully before arriving at any holistic view.

INDIA'S TARIFF REFORMS: ISSUES AND POLICY SUGGESTIONS

The analysis of India's Tariffs, both General and Preferential and also by sectors throws open many Policy areas and issues on the tariff front.

1. Issues and Policies Related to India's Tariff Structure and Rationalization

Tariff rationalization while aiming at greater liberalization and exports needs to rectify any anomalies in the tariff structure keeping in mind domestic concerns as well. Some major issues/areas in this regard are the Level of Tariffs, both BCD and Total; Inverted Duty Structure; Prevalence of non-ad valorem (NAV) tariffs; and Multiple Tariff Rates.

a) Level of Tariffs

India's tariff liberalization policy started particularly since the 1991 Economic Reforms. As a result, India's peak rate of tariffs started falling and at present is at 10%. Simple average MFN applied tariffs have also been falling except recently in 2018 when there is a rise which may be due to some protectionist measures in line with other countries and to some extent, a data issue as TRAINS based WITS data does not indicate any increase. India's simple average applied MFN tariffs (as per WTO and WTO based WITS data) at 17.1% in 2018 is the fifth highest in the world and higher than that of comparable trading partners of India. **Thus, in the first instance India's tariffs seem to be relatively higher than many other countries including the ASEAN countries, though Korea has relatively high simple average tariffs (total) due to its high tariffs on the agricultural sector.**

This, however is not the real picture as around 68% of the tariff lines covering around 86% imports in the non-agricultural sector have less than 10% MFN applied tariffs. In the non-agricultural sector, import values and tariff lines are more concentrated in the lower end of the tariff range, while in the case of agricultural items they are more concentrated in the higher end of the tariff range.

Moreover, India's weighted average MFN applied tariffs are lower for total items and for non-

agricultural items, though ASEAN countries have still lower tariffs. The lower average weighted MFN tariffs compared to simple average MFN tariffs, particularly for non-agricultural sector indicates that India's imports of high tariff items are lower which could also imply that high tariffs could have led to lower imports of such items.

Effective tariffs taking into account India's preferential tariffs to different countries, is much lower with simple average Effective tariffs at 8.7% and weighted average Effective tariffs at 4.9% in 2018 (as per TRAINS data). This shows that India's import tariffs are not as high as it is believed to be. If this be the case, there is also a need for India to dispel the belief that India is a high tariff country by highlighting the facts and wherever possible rationalizing MFN tariffs closer to effective tariff levels.

Realized tariffs goes one step further. Though not strictly comparable to other tariff terminologies, Realized tariffs (Basic) which is based on customs revenue collection was very low at 3.2% in 2018, further reinforcing the fact that India's tariffs are not as high as they appear to be. The different tariff concessions by the Government including preferential tariff concessions are all captured in the realized tariffs. A similar indicator giving realized tariffs for the US is 1.6% in 2018. Thus, India's realized tariffs are not that high compared to that of the US. However, the US realized tariff is only slightly lower than its average MFN tariff unlike India's, which is much higher.

Some studies state that India's tariff policy is focusing more on revenue collection. This is wrong if we see the realized duties where a lot of revenue is forgone in the form of exemptions. The revenue foregone due to various exemptions gets reflected in the realized tariffs (Table 10). The revenue impact of unconditional exemptions is Rs. 1,29,622 crore in 2018-19 and estimated at Rs. 1,22,737 crore in 2019-20. Of this, FTAs/ CECAs, etc. account for Rs. 48,793 crore in 2018-19 which is estimated to increase to Rs 65,734 crore in 2019-20.

Table 10: Customs Revenue Forgone due to Conditional/Unconditional Exemptions and Export Linked Incentives (Rs Crore)

Sl. No.	Name of the Scheme	Revenue Impact (Rs Crore)	
		2018-19	2019-20 (Estimated)
1	Unconditional Exemptions		
	On account of unconditional/technical BCD exemptions as per EDI data	129622	122737
	Of Which		
	On account of FTA/PTA/CECA/CEPA as per EDI data	48793	65734
2	Conditional Exemptions		
	Revenue foregone due to Conditional BCD exemptions.	34735	33750
3	Export Linked incentive schemes		
	Revenue impact on account of export linked incentive schemes	41018	48220
	Net Revenue Foregone (2+3)	75753	81970

Source: Computed from Receipt Budget 2020-2021, GoI

The net revenue foregone due to conditional exemptions and export linked incentive schemes in 2018-19 was Rs75,753 crore and is estimated to increase to Rs 81,970 crore in 2019-20. Among the conditional BCD exemptions, the major items in terms of share in total conditional BCD exemptions, are other items (73%) in 2018-19 followed by specific goods used in the manufacture of mobile phones (21.4%).

Thus, while there is a need to bridge the gap between perception and reality, a careful rationalization of tariffs is also needed to bridge this gap between Realized Tariffs and MFN applied tariffs. But tariff rationalization has to be done cautiously as there are many sensitive items and items having livelihood concerns. To begin with tariff lines with BCD above 10% should be examined for rationalization. Even items at the borderline of 10% covering 38.3% of tariff lines and 23.7% of imports in the non-agricultural sector can be considered for rationalization.

It is to be noted that for many items, already duties have been lowered under FTAs. In fact, Effective tariffs for many items with MFN tariffs above 10% are low and even below 10% due to preferential tariffs, etc. Thus, for many items already preferential tariffs apply for FTAs and if MFN tariffs can be lowered slightly to effective tariffs (AHS) levels or near to it, India's MFN tariffs for majority of non-agricultural items will be below 10%. The final list of items for rationalization should however be arrived at after wide-ranging consultations with stakeholders. Thus, there is scope for rationalizing tariffs at least up to or near the Effective tariff level if not up to or near the Realized tariff level.

One more issue in the case of tariff rationalization is the level of Total Duties. India's total import duties including BCD, IGST and SWS is double or more than double the BCD in most of the non-agricultural items. While there is no refund or input credit for SWS, in the case of IGST, though Input Tax Credit (ITC) is available, there is the drill of paying IGST first and then claiming input credit later. Besides for some final consumption goods, there is the problem of claiming ITC. **So, there is a need to make IGST less protective and remove SWS on imports to reduce the level of total duties.**

b) Inverted Duty Structure

The Government has been addressing Inverted duty structure from time to time. Yet some inverted duties continue and new ones are appearing. One new type of inverted duty has cropped up due to FTAs wherein preferential tariffed finished goods imports have zero/low tariffs while non-preferential tariffed imports of earlier stages of production like raw materials and intermediate goods have higher duties. These and other specific cases of inverted duty need to be addressed.

c) Non-ad valorem (NAV) Tariffs

While India's non-ad valorem tariffs have fallen over the years in the non-agricultural sector, still 5.5% of the MFN applied tariff lines had non-ad valorem tariffs in 2018, though in terms of import share, they form only 0.3% of total imports of India in 2017. In agricultural sector, NAV tariffs are lesser than non-agricultural sector in terms of tariff lines (0.3% in 2018), though in terms of import share, they are higher at 2.9% in 2017. There are many NAV tariffs in the textiles sector. Though some advanced countries also have many tariff lines with non-ad valorem tariffs, for simplifying the tariff structure it would be better if India reduces the tariff lines with NAV tariffs to the maximum possible extent and convert them to ad valorem tariffs.

d) Multiple Tariff Rates

One important issue in the context of rationalization of tariffs is the many rates of tariffs (Basic customs duty). While tariff reforms till now have helped in bringing India's Peak duty to 10% and also supposedly reduced the number of tariff rates, in reality, in 2019 there are still 24 ad valorem tariff rates including the zero-duty rate covering 11839 tariff lines. While agricultural sector has 19 tariff rates covering 1432 tariff lines, non-agricultural sector has 18 tariff rates covering 10407 tariff lines. While it is believed that the number of tariff rates has been reduced over the years, India still has many tariff rates even if only ad valorem tariff rates are considered. This calls for reducing the number of tariff rates to the barest minimum. While converting non-ad valorem to ad valorem will increase the number of rates further and also give it in decimals as done in WITS database which gives ad valorem equivalents (AVEs), this is more of an academic exercise. If NAVs (as given in WTO data) are also considered, then India had 252 distinct MFN duty rates in 2018.

The Tariff rates of Agricultural sector are top-heavy (15-150 range), while tariff rates of non-agricultural sector are bottom-heavy (0-30 range), Maximum Tariff lines are in the Tariff rate of 30% for agricultural sector, and in the 10, 7.5, 20 and 5% rates in the non-agricultural sector. Thus, the modal tariff rate in agricultural sector is 30% and the most appearing tariff rates in non-agricultural sector are 10% & 7.5% followed by 20%.

There are 4 Tariff rates in agricultural sector and 6 Tariff rates in non-agricultural sector below 10% tariff rate (i.e., single-digit tariffs). These are cases to be examined for rationalization in terms of the number of tariff rates. Merging some tariff rates at the tail ends (upper and lower range) can easily reduce the number of Tariff rates (Agri & Non-Agri) at one shot without affecting many tariff lines.

There are 1379 Tariff lines in Agricultural sector and 6384 in non-agricultural sector with Tariff rates at and above 10%. In terms of tariff lines, 96.3% in Agricultural, 61.3% in Non-Agricultural and 65.6% in Total; and in terms of import share 87.7% of Tariff lines in Agricultural, 46.4% in non-agricultural and 48.0% in Total have tariff rates of 10% or above. These are the tariff rates that have given India the tag of a high Tariff economy. Thus, it is the tariff lines in these tariff rates that need to be examined for rationalization in terms of both level of tariffs and tariff rates. Merging some tariff rates can reduce the number of tariff rates.

Thus, in short, policies related to India's tariff structure and rationalization should include reducing the tariffs at least up to or near the Effective Tariffs and wherever possible near the Realised Tariffs coupled with a reduction of IGST rates in sectors where it is highly protective and removing the Social Welfare Surcharge (SWS) from imports. Rationalization should also include reducing the number of tariff rates by merging some of them; pruning the non-ad valorem tariffs to the barest minimum; and addressing the remaining cases of inverted duty structure wherever possible. Sensitive items particularly in the agricultural sector and having

livelihood concerns should also be taken care of.

2. Policies Related to Rationalization of Preferential Tariffs

India though a late entrant in the area of FTAs has entered into many PTAs/FTAs/CECAs/CEPAs. In terms of share in total imports and exports, among the existing FTAs, APTA, ASEAN and SAARC as country groups and Singapore, Korea and Japan as individual FTA partners are the major trading groups/countries.

For the last three years (2016-2018), the share of preferential imports from all FTAs together in total imports of India was in the range of 16%-17%. The share of preferential imports by India in its imports from FTA/RTA partners is high in the case of Afghanistan, Bangladesh, Sri Lanka, Nepal, SAARC, Japan and Chile. But the share of preferential imports of these FTA/RTA partners in their imports from India is much lower. In the case of Singapore, share of preferential imports in its total imports from India is negligible as Singapore's MFN tariffs were already low. Thus, India has not gained in terms of tariffs in India-Singapore CECA and gains need to be seen only in other parameters covered in the CECA. Some sort of balance in terms of Preferential trade can be seen only in the case of India's preferential trade with South Korea and beneficial for India in APTA and MERCOSUR, though preferential trade is limited especially with MERCOSUR.

Preferential tariffs (weighted) is much lower than MFN tariffs on India's import side except for APTA, while in India's FTA partners' side, Preferential tariffs are closer to MFN tariffs except mainly for Korea, APTA and MERCOSUR. This indicates that the margin of preference given by India to its FTA partners is higher than the margin of preference given by them to India except mainly in the case of Korea and APTA. Thus, there is some sort of an "Unequal Exchange" in India's FTAs in terms of tariffs.

One more thing to be noted is that more than the utilization rate of FTAs being lower by India on the export side, it is the low coverage of items under preferential trade in the imports of FTA partners of India and the relatively low preference margin which are important.

Thus, India's FTAs have not benefited India much in terms of tariffs, the main parameter of any FTA negotiations, but for some exceptions. While factors other than tariffs are also important, the importance of tariffs cannot be ignored. So, India should not rush to conclude FTAs with many countries/groups. A proper evaluation even of existing FTAs is needed on the lines of a Zero Budgeting exercise. This is important particularly in the context of the revenue impact of FTAs (Table 11).

Table 11: Revenue Impact on account of FTA/PTA/CEPA/CECA

Sl. No.	FTA/PTA/CEPA/CECA Country/Region	Revenue Impact (Rs Crore)		Revenue Impact: Share of FTA/PTA in Total of FTAs/ PTAs (in %)	
		2018-19	2019-20 (Estimated)	2018-19	2019-20 (Estimated)
1	On account of concessional rate of customs duty for specified goods imported from ASEAN	22922	34779	47.0	52.9
2	On account of concessional rate of customs duty for specified goods imported from Korea	7327	7512	15.0	11.4
3	On account of concessional rate of customs duty for imports from Japan	4053	4883	8.3	7.4
4	On account of concessional rate of customs duty for imports from Malaysia	1416	3683	2.9	5.6
5	On account of concessional rate of customs duty for imports from South Asian Free Trade Area	403	246	0.8	0.4
6	On account of Preferential Trade Agreement with Least Developed Countries, Asia Pacific Trade Agreement etc.	11161	13090	22.9	19.9
7	Others	1511	1541	3.1	2.3
	Total	**48793**	**65734**		

Source: Computed from Receipt Budget 2020-2021, GoI

The revenue impact due to India-ASEAN CECA is the highest with the share of revenue impact in total at 47% in 2018-19 and estimated to increase in 2019-20 to 52.9%. The share of PTA with LDCs and APTA together is next highest at 22.9% in 2018-19 and estimated at 19.9% in 2019-20. This is followed by India-South Korea CEPA with a 15% share in 2018-19 and estimated to be 11.4% in 2019-20. Japan followed by Malaysia are the other two FTAs with a significant share. The revenue impact of SAFTA is very small despite a major part of imports covered under preferential trade as India's imports itself is relatively less from SAARC countries. Since the revenue impact of FTAs is significant, proper evaluation of the gains for India needs to be made before negotiations/renegotiations on FTAs.

Since, some countries are in multiple FTAs and the same commodities are included in tariff concessions in different FTAs, there should be some uniformity. The tariff concession for a tariff line by India should be the same for all FTAs. This will help in avoiding an FTA partner trying to use or misuse the best concessions in the FTA which has relatively lower preferential tariffs. This will also help in removing the confusion to domestic producers and make actions of a multiple FTA partner predictable.

Many FTAs of India to developing countries have resulted in mainly giving tariff concessions. So, a proper evaluation of the less developed and developing countries needs to be done to see whether they have graduated to a level where tariff concessions may not be needed for some items or whether the same countries are competing against India, using the tariff concessions. With US withdrawing GSP benefits to India but not to some developing FTA partners of India, India will be more open to competition in the US market from its FTA/RTA partners. **In this context, India has to see whether any of the existing concessions given to LDCs have to be re-evaluated. Along with the 'graduation clause' for the developing country FTA partners, there is a need for a 'sunset clause' for some concessions to FTA partners.**

Since WTO negotiations are not making much headway, FTAs have mushroomed all over the World. However, if WTO negotiations take place or if India can come up with some major tariff-related offers, then many of the existing FTAs may become irrelevant. So, the tariff policy towards FTAs should be in sync with general tariff policy and possible offers by India on tariffs at the multilateral level. Next WTO Ministerial is in June 2020 in Nur-Sultan, Kazakhstan. Before that, India needs to firm up its policies towards FTAs.

In the case of negotiations for any new FTAs in the future, if the MFN tariffs of the partner countries are already zero, near-zero or low, India should try to get maximum gains in areas other than tariffs as the preference margins for India would be low. FTAs should be based primarily on economic gains resulting in tariff liberalization on both sides without affecting sensitive sectors particularly agricultural sector. Political, Strategic or other gains should be only secondary.

There is also a need to see that total duties do not become unduly protective both in the context of general trade and preferential trade. While IGST has to be rationalized, SWS should not be applicable for custom tariffs as it adds to the protection.

So, a multi-pronged strategy to rationalize tariffs in the context of India's FTAs is needed.

3. Rationalizing Tariffs in the Light of 'Make in India'

The Government of India in its Budget 2020-21 has made some tariff-related changes to help 'Make in India'. These include among others increase in customs duty, particularly under the Phased Manufacturing Programme (PMP) for Electrical Vehicles and Cellular mobile phones; an increase in customs duty for Electronic Sector and Food Processing industry; and lowering customs duty for inputs in many items.

The analysis of imports by India from the World by Stages of Processing, taking the weighted average for both MFN and effective tariffs shows that India is moving in the right direction towards 'Make in India' with tariffs for raw materials, capital goods and intermediate goods falling and also being low except for Intermediate goods. The weighted tariffs, both MFN and Effective are still relatively high in 2018 for Intermediate goods. The MFN and Effective tariffs were at 8.6% and 7.1% for Intermediate goods in 2018 (Table 12). However, simple average MFN tariff is the highest for raw materials at 20.6%. Even simple average Effective tariff is high for raw materials at 10%. The difference between simple and weighted averages indicate that while tariffs for many tariff lines of raw materials are high, making simple average tariffs higher, the weightage of low tariffed raw materials in imports is high.

Table 12: Tariffs by India and the World in 2018

	India's Tariff on Imports from World					World's Tariff on Imports from India				
	MFN		AHS		Imports Value in US$ Million			MFN		Imports Value in US$ Million
	Simple Average	Weighted Average	Simple Average	Weighted Average		Simple Average	Weighted Average	Simple Average	Weighted Average	
Raw materials	20.6	2.6	10.0	2.1	221574	5.4	5.4	6.2	6.2	17343
Intermediate goods	10.4	8.6	7.8	7.1	184252	5.3	2.4	6.1	3.3	96937
Consumer goods	16.6	9.9	12.0	8.3	70221	10.7	6.1	11.7	7.1	81280
Capital goods	8.3	5.3	6.2	4.1	128504	4.2	2.8	4.7	3.9	35987

Source: Compiled from WITS Database

While India's tariff structure for World imports has helped in imports of some low tariffed but high weighted raw materials, the tariff structure of the World on Imports from India is helpful for India's exports of Intermediate goods and even capital goods (particularly if we see weighted tariffs both MFN and AHS). But consumer goods exports from India face high tariffs.

Despite a high value of raw material imports by India having low duties, there is a need to see that in terms of the number of tariff lines also, India's raw materials imports particularly for non-agricultural sector have low tariffs and any inverted duty structure is avoided. Tariffs for Intermediate goods should also be reduced further. This can help 'Make in India' and further help India move up the value chain.

Further dovetailing tariff liberalization policies with pointed tariff policies in some sectors like Electronics including Optical Fibres and Cables, and items not in ITA1, Shipping Sector and even Plantations Sector can further help in 'Make in India' or 'Produce in India'. In this context, India could make major gains if the Optical Fibre/Optical Fibre Cables sector is promoted under 'Make in India' under the Phased Manufacturing Programme.

4. Rationalizing Tariffs in the Light of Export Promotion Schemes

A World Trade Organization (WTO) dispute panel ruled on October 31 that India's key export promotion schemes violated WTO rules and hence should be withdrawn within six months. The verdict was based on a complaint filed by the United States of America (USA), which argued that five export subsidy schemes worth over $ 7 billion that India offers, are not compatible with WTO rules. The ruling covered India's schemes such as the Export Oriented Units (EOU) Scheme and Sector-Specific Schemes, including the Electronics Hardware Technology Parks (EHTP) Scheme and the Bio-Technology Parks (BTP) Scheme, the Merchandise Exports from India Scheme (MEIS), the Export Promotion Capital Goods (EPCG) Scheme, the Special Economic Zones (SEZ) Scheme and the Duty-Free Imports for Exporters Scheme (DFIS).

The low realized tariffs of India are also due to different concessions under export promotion schemes, including EPCG, MEIS, etc. As per the Receipt Budget 2020-21, the revenue impact on account of export promotion schemes is Rs. 65720 crores in 2018-19 and estimated to increase to Rs. 73060 crore in 2019-20. Of this, the revenue impact of MEIS itself is more than 50% (Table 13).

Table 13: Revenue Impact on account of Export Promotion Schemes

Name of the Scheme	Revenue Impact (Rs Crore)		Share of different schemes to total input tax neutralization/ export linked incentive schemes (in %)	
	2018-19	2019-20 (Estimated)	2018-19	2019-20 (Estimated)
Input tax neutralization or exemption				
Advanced License Scheme	15075	14896	61.0	60.0
EOU/EHTP/STP/SEZ	5734	6022	23.2	24.2
EPCG	3220	3306	13.0	13.3
Duty Free Import Authorization Scheme	673	616	2.7	2.5
Revenue impact on account of input tax neutralization or exemption schemes	24702	24840	100	100
Export linked incentive schemes				
Duty Free Entitlement Credit Certificate	140	78	0.3	0.2
Service Export Incentive Scheme	3756	7008	9.2	14.5
Focus Market/Product Scheme	507	200	1.2	0.4
Merchandise Exports from India Scheme	36615	40934	89.3	84.9
Revenue impact due to export linked incentive schemes	41018	48220	100	100
Total Revenue Impact of Export Promotion Schemes	65720	73060		

Source: Computed from Receipt Budget 2020-2021, GoI

There are two types of Export Promotion Schemes – Input tax neutralization or exemption schemes and Export linked incentive schemes. The revenue impact of Input tax neutralization or exemption schemes is Rs. 24702 crore in 2018-19 (and estimated at Rs. 24840 crore in 2019-20). Of this, Advance License Scheme has a major share (61.0%), followed by EOU/EHTP/STP/SEZ Schemes (23.2%) and EPCG Scheme (13.0%). The revenue impact of Export Linked Incentive Schemes is Rs. 41018 crore (and estimated at Rs. 48220 crore in 2019-20). Of this, Merchandise Exports from India Schemes (MEIS) has a major share (89.3%) followed by Service Export Incentive Scheme (SEIS) (9.2%).

Many of the export promotion schemes result in a triple negative effect. Firstly a lot of revenue is foregone as indicated by the gap between applied MFN tariffs and Realized tariffs. Secondly, India is questioned at the WTO as some of the schemes are considered as WTO incompatible and thirdly, the perception of India being a high tariff economy results in trade negotiators of other countries looking at India with jaundiced eyes.

Though different rates of tariffs are levied not just with the motive of revenue generation,

but for various other reasons including protecting the domestic sectors, providing differential treatment to sectors, avoiding inverted duties, etc., there is scope for India to reduce its applied tariffs substantially and simultaneously phase out some of the export promotion schemes. This will not cause much revenue loss. The applied MFN tariffs can at least be near to the Effective Tariffs and wherever possible near Realized Tariffs. Even customs revenue realized can be higher if applied tariff rates are kept slightly above the current realized tariff rates along with plugging leakages by phasing out the export incentives and keeping them to the barest minimum. Trade & Industry including Exporters will also not be adversely affected as the import duties are lower. Instead, they can benefit due to lower transaction costs. Domestic concerns should, however, be taken care of by addressing issues related to sensitive items.

5. Tariff Policies and Strategies for Multilateral and Bilateral Negotiations:

The WTO negotiations are in limbo with the different groups of countries sticking to their standard positions. Not much headway is expected in the twelfth WTO Ministerial scheduled for June 2020 in Kazakhstan if countries stick to their old scripted stand. **While India's applied tariffs are below the bound tariffs, the bindings themselves are at a higher level, both for agricultural and non-agricultural sectors.**

In this context, the question is whether in the forthcoming WTO negotiations, India can throw a surprise in the area of tariffs. This may be possible if India first does its homework properly and decides on the tariff reforms at home as outlined earlier. A carefully thought out plan of reducing tariffs coupled with the withdrawal of the WTO incompatible export promotion schemes can, not only help in the growth of the economy but also have a positive effect on India's trade negotiations and help in removing the tag of India being a high tariff economy.

For this, a comprehensive list of sectors and items where India can comfortably lower its tariffs has to be prepared. As a starting point, a list of items with a high difference between MFN applied tariffs and Effective tariffs on the one hand and a second list giving the difference in MFN applied tariffs and Realised tariffs, on the other hand, has to be prepared. The first list can help in preparing the first cut off for India's tariff offers and the second, the lower limit for the tariff below which negotiated tariffs should not go. Both the lists should be prepared sector-wise and tariff line-wise. While data for the first list is available in WITS, though the latest year is for 2018, for the second list, only the Government has the data. This should be backed by wide consultation with all stakeholders. A list prepared giving the difference between MFN and AHS tariffs code-wise at 2 digit level and 6 digit level for items with simple average tariffs at or above 10% and with the difference between MFN and AHS greater than 4 percentage points shows that the difference between the MFN and AHS tariffs is noticeable in many codes. There are 427 items at the 6 digit level with tariffs at or above 10% with the difference between Simple average MFN and Effective tariff of 4 percentage points. The major non-agricultural items are photographic or cinematographic goods; textile items; Iron & Steel items; Electrical items; Vehicles other than railways; Footwear; toys, games & sports items; chemicals items like cosmetics and perfumes, etc. There are many items in the non-agricultural sector with the difference between Simple MFN and AHS above 10 percentage points. **Thus, there are many items in which the MFN tariff can be lowered to the Effective tariff level or near it. This will help in formulating India's negotiating stand.**

Meanwhile, there is also a need to dispel the impression that India is a high tariff country by giving the facts and figures of India's Effective and Realized Tariffs.

In the case of ITA1 items where India lost badly, at least new products not covered in ITA1 should be given separate tariff lines where India can decide its offers. This may help in avoiding disputes like the present one, where Japan, EU and even the US have raised their objections for the tariff on some IT products and the EU has even invoked Dispute Settlement proceedings against India. India, however, contends that these items were not in existence at the time of ITA1 and not included in ITA1.

In the case of FTAs, there is a need to systematically review all existing FTAs**.** The Government has already indicated its intent to do so. Renegotiating existing FTAs along with negotiating new FTAs should be based on its assessment. The graduation clause and sunset clause mentioned earlier should be included while renegotiating existing FTAs or negotiating new ones.

An App-based system should be developed where all the parameters related to tariffs should be put in one place with an alert system warning negotiators if they go beyond a particular threshold. For this, databases have to be inter-connected and trade experts should continuously monitor the data.

6. Tariff Related Policies for Moving Up the Stages of Processing and Greater Participation in Global Value Chains (GVCs)

While Global Value chains help in greater efficiency and greater integration into the World economy, in recent years there has been a weakening of the GVCs due to protectionist policies of countries and now a disruption in GVCs due to COVID-19, which hopefully is a temporary phenomenon.

In line with the global trend, in the case of India also, as per TiVA indicators after an increase from 18.8% in 2005 to 25.1 % in 2011 and 2012, the foreign value added content of India's exports indicating 'imports for exports' has declined by 9 percentage points to 16.1 % in 2016. As stated by the OECD, the low level of foreign content in India's exports, relative to OECD and G20 averages, is likely due in part to a shift towards local suppliers of intermediate inputs, particularly in the growing services sector. This is despite an increase in the foreign content of gross manufacturing exports between 2005 and 2015 as the Information and Communications sector carries a significant amount of weight.

The industries with the most foreign value-added content in their exports in 2015 were Coke and refined petroleum products (47%), Basic metals (38%), and ICT and electronics (36.8%). The most foreign content of total exports came from Coke and refined petroleum products (2.8%).

In the case of foreign final demand in domestic production overall 16.4% of India's domestic value-added in 2015 was driven by consumption abroad, up from 15.9%, a decade earlier. By industry, the shares of major sectors were 54.5% for other manufacturing nes and 52.8% for Information and communication services.

Table 14: Tariffs by India and FTA Partners in 2018

	India's Tariffs on Imports from FTAs						FTA's Tariffs on Imports from India		FTA's Tariffs on Imports from India				FTA's Tariffs on Imports from the World				
	PRF		AHS		Imports Value in US$ Million		PRF		MFN		Imports Value in US$ Million		AHS		MFN		Imports Value in US$ Million
	Simple Average	Weighted Average	Simple Average	Weighted Average	Total	PRF	Simple Average	Weighted Average	Simple Average	Weighted Average	Total	PRF	Simple Average	Weighted Average	Simple Average	Weighted Average	
Sri Lanka																	
Raw materials	0.6	1.3	2.4	0.8	95	56	2.7	6.8	13.4	18.8	164	18	15.1	8.8	14.8	9.0	1563
Intermediate goods	1.2	1.4	2.0	1.5	191	189	0.9	1.2	6.6	5.9	1446	255	7.5	15.0	8.7	15.6	7254
Consumer goods	0.6	1.6	2.0	1.9	493	464	1.8	8.0	17.9	17.3	1678	192	20.8	19.6	20.5	20.1	6294
Capital goods	0.0	0.0	0.0	0.0	612	599	1.2	2.5	3.3	5.5	764	109	4.1	3.6	3.2	4.0	4412
Japan																	
Raw materials	5.3	1.4	5.2	1.6	89	86	1.2	2.7	6.6	1.4	493	119	10.1	2.8	7.8	3.0	163316
Intermediate goods	1.9	1.5	2.5	1.8	6282	5489	0.4	0.3	4.4	1.8	2170	1162	3.4	1.8	4.8	2.5	98800
Consumer goods	3.0	2.9	6.0	4.3	1414	1208	1.1	2.1	6.2	8.0	1693	598	5.2	3.7	6.7	4.9	237848
Capital goods	2.9	3.0	3.9	3.7	6966	5475	0.0	0.0	0.1	0.0	579	4	0.0	0.0	0.1	0.0	189708
Korea, Rep.																	
Raw materials	4.7	0.9	2.9	3.8	139	44	4.8	19.2	32.6	75.9	326	136	20.9	8.8	27.2	13.5	109296
Intermediate goods	0.7	0.4	1.9	1.8	9529	7714	0.7	0.7	11.0	4.0	2652	2377	4.6	2.9	11.5	5.5	85176
Consumer goods	1.3	0.8	4.9	2.7	2405	1210	1.4	0.7	12.0	10.1	1414	370	4.9	3.6	12.2	9.5	104953
Capital goods	0.9	1.4	2.0	1.9	7157	5371	0.0	0.0	6.3	6.9	439	415	1.8	2.1	6.2	5.8	159642

Singapore																	
Raw materials	0.4	0.0	3.6	1.0	1663	1540			0.0	0.0	277		0.0	0.0	0.0	0.0	26450
Intermediate goods	0.7	0.7	1.3	1.0	5381	4787			0.0	0.0	1237		0.0	0.0	0.0	0.0	53025
Consumer goods	0.9	1.0	5.3	11.5	2199	1257	0.0	0.0	1.3	4.8	3758	12	1.4	1.0	1.0	2.8	80506
Capital goods	0.3	0.6	0.8	0.4	7296	4139			0.0	0.0	668		0.0	0.0	0.0	0.0	147831
SAARC																	
Raw materials	0.7	1.0	2.7	1.7	1014	843	5.4	7.7	10.0	8.6	1237	434	8.5	6.0	10.1	6.5	14897
Intermediate goods	0.8	0.8	2.1	0.7	1049	941	4.0	4.6	9.3	8.4	5124	1260	9.0	9.2	9.6	10.0	31618
Consumer goods	0.7	0.7	2.7	1.3	1405	1212	5.6	9.7	15.7	17.6	4977	1191	16.5	15.0	15.7	15.8	32125
Capital goods	0.7	0.1	0.4	0.1	696	681	4.9	4.9	9.1	10.6	2243	301	9.6	8.8	9.5	10.0	21050
APTA																	
Raw materials	1.5	2.5	7.8	6.9	1132	401	4.2	4.6	17.4	9.3	3852	1135	12.5	2.9	15.3	4.3	497985
Intermediate goods	0.6	3.1	5.7	6.4	37246	12886	1.7	1.6	8.3	5.2	14256	9445	5.8	3.3	8.7	4.9	461046
Consumer goods	0.9	5.9	7.6	8.9	16419	5411	3.5	4.2	14.5	13.1	4149	1023	10.0	8.4	14.3	11.3	342133
Capital goods	0.4	3.6	4.2	3.6	52798	9709	1.7	2.6	5.3	5.7	2580	1292	3.7	2.5	5.9	3.6	905916
ASEAN																	
Raw materials	0.6	0.7	5.7	2.0	16892	12250	3.4	8.9	4.0	9.0	3514	2639	2.6	2.1	5.0	3.3	68435
Intermediate goods	0.6	0.9	1.6	2.6	24299	17767	2.6	2.2	3.8	2.5	5274	2512	2.4	1.1	4.1	3.2	148434
Consumer goods	0.8	1.8	4.3	8.0	8882	5533	5.9	8.9	8.3	7.3	5460	1235	5.6	3.3	8.9	8.5	158891
Capital goods	0.2	0.5	1.0	0.6	18149	11707	2.5	4.4	2.84	7.55	3005	1780	1.69	0.46	3.1	2.0	266414

Source: Compiled from WITS Database

While the TiVA indicator help in seeing a country's integration into the GVCs, it does not show the role of tariffs in this integration. Tariffs can play an important role in greater integration in the GVCs as indicated in the analysis of tariffs by stages of processing. India's general tariffs for the World by stages of processing show that India's tariffs are helpful for 'Make in India', while the general tariffs of the World for India show that they are helpful in the export of intermediate goods from India.

The analysis of preferential tariffs in FTAs by stages of processing (Table 14) shows that India's tariffs have fallen and are low for all the FTAs in all stages of processing after FTAs were implemented. However, the preferential and effective tariffs on raw materials are relatively higher than in other stages of processing in many FTAs. This needs to be addressed to avoid a type of inverted duty structure due to FTAs. This could also be due to the composition of raw materials particularly agricultural raw materials which have relatively higher tariffs.

While India's FTAs have resulted in lower preferential tariffs for India's FTA partners in different stages of processing (except for raw materials in some cases) helping to integrate in the value chains of production, the preferential tariffs of India's FTA partners for India show that the tariff structure changes have helped in India's exports of mainly intermediate goods to these countries. Consumer goods exports have increased only for Singapore and ASEAN, but this is not due to tariff concessions.

India faces a tariff disadvantage compared to the World for its raw materials exports in many FTAs. This is possibly a pointer that India's FTA partners are giving more concessions to other countries in their other FTAs. It could also be due to the differing composition of the raw materials import basket from India and the World by these FTAs.

Thus the tariff structure in the context of FTAs has helped mainly in the integration of India's Intermediate goods in the global value chains through the forward linkages in India's exports rather than finished or consumer goods for which FTA partners' preferential tariffs are relatively higher for India. In India's tariff negotiations/renegotiations with FTAs, India should also try to get greater market access for its finished goods also to move higher up the value chain.

7. Policy in the Context of Trade Wars and Tariff escalations including GSP withdrawal

Trade wars and trade escalations have led to not only increasing tariffs but also fall or slowdown in trade along with trade diversion as indicated in our analysis earlier on US-China trade wars. While the US-China Trade War has opened up many opportunities for India, there seems to be a truce between the warring parties and the impact of the trade war may be short-lived. However, in the case of India-US trade conflict, withdrawal of GSP benefits has already affected many sectors. **To counter the effects of the withdrawal of GSP by USA, India can have a carefully crafted FTA with USA without affecting sensitive sectors and in which India can ask for duty concessions for all items out of GSP.**

Withdrawal of GSP and removing India from the developing countries list has forced India to negotiate on the concessions which were available earlier. An FTA with the USA can possibly help in regaining benefits similar to GSP. Alternatively, India can also try to get US GSP benefits for some important items at least. The Indian government can also think of giving temporary relief to its exporters for GSP affected items, to increase exports to USA. Since WTO compatibility of the export incentive schemes is under question, it is better to think of measures to support the marketing of Indian products.

Tariff escalation and withdrawal of GSP affect India in another way. While India is out of GSP of USA, some developing and LDC countries continue to enjoy GSP benefits from USA. These countries get tariff concessions in India's FTAs, some as LDC partners. These very countries which continue to enjoy US GSP benefits, compete against India in the very same commodities for which GSP has been withdrawn for India, particularly Bangladesh. Vietnam is also very competitive in some products like textiles. This needs to be addressed by the graduation and sun-set clauses in India's FTAs.

8. A Mechanism for Regular Monitoring of Tariffs

As indicated in Budget 2020-2021, a new Chapter VAA (a new Section 28DA) is being incorporated in the customs Act to provide enabling provision for administering the preferential tariff treatment regime under trade Agreements.

While this is a welcome move, there should be a more systematic way of monitoring tariffs on a regular basis both general and for FTAs. While private institutions are assigned piecemeal research work on tariffs, it would be better to have a Government institution that is privy to a lot of information and data and is backed by authority, which helps in getting necessary information from stakeholders. **A separate cell can be set up in the Government for this purpose. USTR and METI like organizations are needed to monitor tariffs along with trade policies.**

This Trade Policy Making and Monitoring (TPMM) body should include Trade Experts to prepare and monitor tariffs and other trade policies on a regular basis. This will also give continuity in trade policy discussions and also ensure that institutional knowledge is not lost even when there is a change of guard of trade policy negotiators of the Government who have an average tenure of 2-3 years.

The database with the Government should be up to date and should also be available in public domain except for very confidential information. The setting up of a special institution and updating the databases should go hand in hand.

9. Timelines for Tariff Reforms

This report has focused on the varied tariff-related issues and has also suggested some practical policy measures. These measures could be implemented over a period of time. However, there is a need to prioritize the reforms as per indicative timelines. The timelines for tariff reforms can be as follows:

First, Specific duties need to be converted to ad valorem duties in the short term to the extent possible. Second, the number of tariff rates needs to be reduced over time. Third, Inverted duties need to be removed as and when they arise. Fourth, reducing tariffs over a time period to help exports and also for greater integration into the GVCs. For this, in the first stage, bringing MFN tariffs to the level of Effective tariffs should be attempted. In the next stage bringing MFN tariffs near Realised tariffs along with pruning some export incentives should be explored.

So, lowering peak duties across the board may not be an ideal solution at this juncture. What needs to be done is to bring MFN tariffs closer to Effective tariffs and Realized tariffs to the extent possible. Items with above 10% tariffs need to be examined first for tariff rationalization. While prioritizing sectors for tariff reduction over a time frame, electronics and agricultural sector should be kept in the exclusion list to the extent possible. **The objectives of 'Make in India' and the interests of sensitive items particularly in the agricultural sector should be kept in mind while rationalizing tariffs.**

CONCLUSION

Thus this report makes an in-depth analysis of India's tariff-related issues, both general and preferential using the latest available detailed data from different sources and powered by the practical experiences of different stakeholders. Based on this analysis specific and focused policies to rationalize tariffs have been given. In the case of Preferential trade, this report focuses mainly on tariff which is the main pillar of any preferential trade negotiations, though other parameters are also important in the formulation of holistic policies. Some novel policies and strategies related to tariffs for multilateral and bilateral negotiations backed by domestic tariff reforms have also been suggested as per indicative timelines. Implementation of these suggested general and sector-specific policies within a time framework should help in greater liberalization of tariffs along with safeguarding the interests of the domestic sector.

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