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Fresh import curbs soon to frame response to trade war

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The government is mulling a second set of duty hikes to reduce the risk of dumping from China and curb the widening trade deficit. *Business Standard* has learnt from multiple sources across central ministries that metals and minerals are being considered now. These will include certain grades of iron ore, copper ore, aluminum scrap and zinc. Some other items including finished electronic, especially those for which China is a major manufacturer, are also being considered.

Government officials said only certain qualities of these metals could be subject to tariff hikes. "Take, for example, iron ore. For higher grades of iron ore which are not mined domestically, a hike will be counter-productive. But for the grades similar to the ones mined in India, there can be curbs," said an official.

India has raised import duties or imposed restrictive measures on inbound goods five times this year. The latest was on September 26, when the government raised import duties on 19 items, including consumer electronics, diamonds, jewellery, jet fuel, and leather footwear, in a bid to curtail non-essential imports and bridge the current account deficit (CAD).

Officials also said a major part of any decision on further curbs would be to protect India's interest from the trade war between the US and China. "When the finance minister said the government would curb imports of certain items, he did so to help bridge the CAD. But part of the thinking had to do with trade wars too. That thinking has taken centre stage," a second official said. "With the US imposing curbs, Chinese goods meant for the US are likely to flood Indian markets. Those will especially be electronic items meant for holiday or Christmas season in the US."

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UNDER CONSIDERATION

Import items	Amount ($ mn)	Annual growth (%)
Iron ore	655.2	103.3
Copper ore	4,319.1	58.4
Aluminium scrap	2,044.0	45.8
Electronics*	21,057.2	[illegible]
Zinc in various	827.3	

FY18 import figures
*Mobiles, telephones component
Source: Commerce Departmen

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Copper ore import stood at $4.31 billion in 2017-18, up by over 58 per cent from the year before. If an import duty hike on copper ore is considered, from the present 5 per cent to at least 7 per cent, and if the 2 per cent export incentive on copper cathodes and rods is reinstated, it will help government companies like Hindustan Copper in improving their valuations, sources said.

Also, as a large quantity of iron ore is lying idle, experts said there was a need to encourage export of surplus by removing duty. "If the government allows iron ore export from Karnataka, it will benefit public sector undertakings like NMDC. Similarly, restart of Goa mining should also be considered," said an expert who is part of the deliberations.

China has recently levied import duty on aluminium scrap because of which import has gone up. There is a call to increase import duty on aluminium scrap from the current level of 7.5 per cent.

Another commodity that may come under the non-essential list is zinc. According to reports, India has an extra capacity of 80,000 tonnes but still imports more than double that of refined zinc, with 70 per cent of it coming from South Korea.

The total import bill of the items on which tariff hikes were imposed last month stood at ₹860 billion in 2017-18, according to the finance ministry. This, however, constituted just 2.8 per cent of India's total import bill last financial year, raising questions over the efficacy of the measure.

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

Also, despite India importing $21 billion worth of electronics in 2017-18, led mostly by finished high-end electronic products, mobile phones and their components, no tariffs has been announced. The commerce ministry has pointed out to an inter-ministerial panel on CAD that the trade gap for electronics products has doubled in the past five years. The deficit stood at $38.94 billion for 2017-18, compared with $18.86 billion in 2013-14.

The domestic market stands at $71 billion as of now and is likely to grow to $100 billion by 2020-21. The mobile phone segment, a major contributor to the sector, is pegged at $25 billion, but is expected to grow to $80 billion by 2025.

Customs duties on 43 broad categories of goods, including electronics, were raised in this year's Budget. The ballooning of the trade deficit is mostly underlined by a rebound in oil global crude oil prices over the past few months. A surge in inbound capital goods such as chemicals, ores, and machinery inputs together with consumer durables, particularly smartphones and luxury items, have complicated matters further.