GTRI Brief

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Budget 2023-GTRI Wish List for Trade

Five Points for Improving Export Competiveness

Preface

GTRI Budget 2023 wish List for Trade

Most forecast say that Year 2023 will be tough on trade as large global economies are slowing down for many reasons. How can we provide some extra push to exports?.

Here are five suggestions.

These will improve competitiveness and reduce the cost and time of doing business. Best part. Implementation does not need money.

- One, credit all duty refunds into exporters account as soon as Goods leave shore.
- Two, reduce incidences of inverted duties as they weaken Make in India.
- Three, use simple language in Customs Notifications.
- Four, bring exports through post and courier at par with standard customs clearances.
- Five, do not allow machinery import at zero duty for making products for the domestic market.

Hope you find the contents useful

We would **love to get your feedback** at ajay@centrefortrade.com

Ajay Srivastava
Co-Founder
Global Trade Research Initiative
M-9818234085

Budget 2023 wish List For Trade
Five Points For Improving Export Competiveness

India's merchandise trade exceeded US$1.1 trillion in the calendar year 2022.

Most forecast say that Year 2023 will be tough on trade as large global economies are slowing down for many reasons.

How can we provide some extra push to exports.

Here are five suggestions for the budget 2023. These will improve competitiveness and reduce the cost and time of doing business. Best part. Implementation does not need money.

One, credit all duty refunds into exporters account as soon as Goods leave shore.

The move will help 90% of India's exporters as the operating cost two schemes comes down immediately.

The government would need to combine the Drawback and RODTEP schemes into one and notify the tariff line wise rates as a percentage of export values.

The logic for combining the two schemes is simple. Government refunds the taxes paid on inputs used in making of export products. This money is coming down gradually. The average rate of refund as a percentage of export value used to be over 20 percent two decades back. The average rate came down to about 10% five years back. Now the average rate is less than 4% from both Drawback and RODTEP schemes.

Both schemes have independent rulebooks and rate lists even though they apply for the same export consignment. Also, if an exporter forgets to tick the relevant column in the shipping bill, he gets no money even if he has exported and met all other conditions.

Two, reduce incidences of inverted duties as they weaken Make in India.

An inverted duty condition happens when duties on inputs are high, and on corresponding output is low. Expensive inputs makes costly products that canot compete in the export market. In domestic market, such products are prone to cheaper imports. Let us look at two real examples from Indian industry.

Engineering industry. An Indian firm in Tamilnadu imports Aluminium Extension Alloy from China, paying a 7.5% customs duty. It makes Aluminium Formwork for sale in the domestic market. A South Korean firm also imports the same input from China. But it imports duty-free, makes the same final product, and ships to India duty-free using India-Korea FTA. The Indian firm will be more expensive by at least 7.5%, the duty paid on inputs. Unless policy changes, the Indian manufacturer may shut operations. A large number of Indian firms across the product spectrum face this dilemma.

Garment industry. Indian industry imports cotton and synthetic fabric of value US$ 2 billion, paying an average of 10% import duty. Bangladesh imports the same material from China at zero duty, makes garments, and ships to India at zero import duty using the SAFTA. The Indian firms will be more expensive by at least 10%; the duty paid on fabrics.

India's import of garments and made-ups from Bangladesh has increased by about 50% this year, approaching the billion-dollar mark in CY2022.

FTAs have multiplied the incidence of inverted duties. High MFN duties and zero FTA duties are tricky for manufacturing in India.

Three, use simple language in Customs Notifications.

Their language is difficult to understand. For example, finding the correct Customs duty for a product is a pain. A firm needs an expert to wade through the maze of hundreds of Customs notifications issued every year. The notifications are not self-contained, and most amend parts of a notification issued many times more than 20 years ago. An example will illustrate this point:

Notification No. 07/2019 published on March 15, 2019. "..the Central Government .. makes the following further amendments in the notification No.152/2009-Customs, dated December 31, 2009, .. namely: In the said notification, in the TABLE, against serial number 384, for the entry in column (2), the entry, "480920, 480990", shall be substituted."

The above notification could have said that the duty on the photocopier paper would be 10.94 percent. But it neither mentions the product name nor the duty rate. Ninety percent of notifications suffer from such complexities.

Further, many exemption notifications do not mention specific tariff codes. This makes expert intervention necessary in deciding the import duty. The Customs duty calculator is of little help.

The way out is to rescind the old notification while issuing a new one. Or publish an updated version. Make new notifications self-contained. Each notification should list the effects of the notification, a practice followed by the DGFT. All duties on all products with every condition should be available on a single excel sheet. Most developed countries notify duties in transparent ways.

Four, bring exports through post and courier at par with standard customs clearances.

This will require removing value limits and allowing the same export benefits. Current rules require that shipments above the value of 5 lahks cannot use India post and courier. Also, a product exported through a normal customs process gets benefits like Drawback and RODTEP, but no such benefit for the same product shipped from post or courier mode.

With the challenging global economic situation, buyers insist upon quick deliveries. Exports must be free to use the mode of shipment. Also, all incentives should be available to exports through post or courier. This will promote e-commerce exports, especially from class B and C cities as a district, as the Districts as export hubs scheme takes off.

Five, do not allow machinery import at zero duty for making products for the domestic market. Firms pay import duty when importing machinery for making products for domestic sale. But if a firm operates under the 'Manufacturing & Other Operation in Warehouse Regulation' (MOOWR) scheme, such conditions do not apply. A firm can import machinery duty-free to make products for the domestic market. Zero-duty imports of capital goods harm domestic machinery makers and distort the level playing field for other manufacturers.

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GTRI aims to create high-quality and jargon-free outputs for governments and industry on issues related to trade, technology and investment from the perspective of development and poverty reduction.

Mr Ajay Srivastava is the co-founder of GTRI. He took VRS from the Government of India in March 2022. He is an Indian Trade Service officer with experience in trade policy making, WTO and FTA negotiations. He did MBA from Indian School of Business.

Feedback

Your feedback on this report is most welcome. Please email at ajay@centrefortrade.com.