

**“Impact of Inverted Duty Structure on Level Playing Field
for Domestic Producers in India”**

18 April 2024 ■ Conference room 2, IIC (Near Pergola)

Pradeep S Mehta

Secretary General, CUTS International

1. Despite our best efforts, the manufacturing sector, although growing in absolute terms, has remained below 17 percent in its contribution to India’s GDP during the last 20 years. Data suggest that manufacturing sector has not been able to keep pace with the growth rate of other sectors and the growth rate of overall GDP during the last decade which has resulted in a declining contribution of the manufacturing sector as % of GDP.

2. Studies reveal multiple reasons to explain this performance including lack of cost competitiveness, low levels of investments, lack of available skilled manpower, low levels of productivity, low tech adoption etc. researchers at CIRC and CUTS International have put their focus towards the incidence of “Inverted Duty

Structure” as a critical factor explaining the declining contribution of manufacturing as a percentage share of India’s GDP.

3. I am glad that a team of researchers at CUTS Institute of Regulation & Competition (CIRC) and CUTS International have taken a deep dive into the “Impact of Inverted Duty Structure on Level Playing Field for Domestic Producers in India” to assess the products and corresponding sectors being affected by the incidence of “Inverted Duty Structure” in the four sectors, namely:

- i. Textile and apparel
- ii. Chemicals
- iii. Metals/ Minerals
- iv. Electrical and Electronics goods including Mobile and IT hardware

4. Inverted Duty Structure (called IDS hereafter) refers to the situation when duties levied on raw materials and inputs are higher than the duty levied on the corresponding final product.

5. **IDS puts Indian producers at an inherent cost disadvantage**: It reduces the competitiveness of the domestic

producers by levying higher tariff rates on intermediate inputs and thus it increases the cost structure of the domestic producers.

6. **IDS does not provide fair level playing ground for domestic producer:** IDS disincentivises domestic manufacturing and allows relatively cheaper imports of final goods by levying lower tariff on them. This leads to loss in domestic producers' competitiveness due to IDS.

7. Government has been providing certain duty exemption/remission schemes like Advance Authorisation and RoDTEP to the domestic producers engaged in exports. These schemes reduce the extent of IDS for them, but the same relief is not provided to the producers serving the domestic market.

8. Issue of IDS is generally regarded as some product or sector specific issue, but our research shows that this issue is an economy wide phenomenon and about 36% of the sample products across the four sectors face incidence of IDS.

9. Our study finds that about 33, 52, 18 and 52 percent of total products (reported under Annual Survey of Industries database) are affected by the incidence of IDS in textile and apparel, electrical and electronics, chemicals and metals sector respectively.

10. In my assessment, the issue of IDS needs to be relooked from a whole-of-the-economy lens, as it affects manufacturing for both import substitution (of at least non-essential imports) as well as augmenting export earnings. It will not be out of place to mention that addressing IDS can make a dent and help achieve better results not only on “Make in India” but also an “Atma-Nirbhar”, as our prime minister has emphasized in several recent speeches.

11. To validate the draft findings, CIRC and CUTS International organized a roundtable discussion on this subject on 7th March 2024. We had received insightful comments from the industry on the issue of IDS and we have incorporated their suggestions in our study. Further, we have been engaging with industry and government to validate the findings of the study and seek their views on this issue. I am confident that engagement with industry and the government will lead to fruitful outcomes on rationalizing

IDS and boosting the competitiveness of domestic manufacturing.

As they say, policy work is akin to a marathon. With the industry and other stakeholders support, CUTS is willing to run this marathon and work towards the competitiveness of the Indian industry.

Thank you.