

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

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1. India is one of the fastest-growing major economies with a projected growth rate of real GDP at 7% for 2023-24. Data suggest that although the manufacturing sector is growing, it 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. Out of many factors such as supply-chain related shocks, low levels of private investment, geo-political tensions around the world, weak external demand 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” (IDS) 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 refers to the situation when duties levied on raw materials and inputs are higher than the duty levied on corresponding final product.

$$\begin{aligned} IDS \rightarrow \text{Duty on raw materials} &> \text{Duty on inputs} \\ &> \text{Duty on final product} \end{aligned}$$

5. **IDS disincentivizes domestic manufacturing:** By making imports of final products relatively cheaper, IDS makes it attractive for firms to directly import the final product instead of

importing required inputs and manufacturing final products domestically.

6. **IDS reduces competitiveness of firms:** Firms that rely heavily on imported inputs experience increase in their cost structure and thus reduction in competitiveness to compete effectively in the international markets. Thus, IDS dampens the export potential by reducing competitiveness of firms.

7. **IDS worsens the trade balance:** On one hand, IDS attracts relatively cheaper imports of final products, leading to increased import burden, and dampens export competitiveness of firms, leading to decreased export potential. Overall impact of both these effects lead to worsening of trade balance.

8. Issue of incidence of IDS is often seen as a limited export-centric or a particular product or sector-related phenomenon but our study shows that this issue is economy-wide phenomenon affecting almost 33% of total products under the sample.

9. Our study finds that about 24, 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. I am confident that going forward our engagement with the industry and the government will lead to fruitful outcomes on rationalizing IDS and boosting competitiveness of domestic manufacturing.

Thank you.