India's trade barriers: an analysis with reference to tariffs and customs procedures

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ABSTRACT

India is the seventh largest economy in the world. However, it is only the sixteenth largest exporter, in terms of value with its exports accounting for around USD 336.6 billion. In contrast, India is the 12th largest importer demanding USD 477.3 billion as of 2013. This article tries to answer major questions pertaining to India's trade barriers in order to understand India's current limitations and to identify untapped opportunities.

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1.0 Introduction

India is the seventh largest economy in the world, but it has managed to position itself only as the 16th largest exporter in value terms which accounts for around USD 336.6 billion and the 12th largest importer demanding USD 477.3 billion in 2013.[i] Although it is claimed that the liberalisation of the Indian economy in 1991 has greatly transformed it by removing many trade barriers and de-licensing of the industrial sector, its value or trade flow has remained very ordinary for a country with a population size of 1.26 billion (Census, 2011).

India witnesses much lesser trade flow by value not only when compared to the bigger economies such as the US and China, but also in comparison with smaller economies, such as Singapore and the Netherlands (Table-1).

Table 1: Trade value flow across some major counties

Countries	Export value in 2013 US $ Billion	Import value in 2013 US $ Billion
China	2210	1949
United States of America	1578	2328
Germany	1458	1194
Japan	715	833
Netherlands	664	590
United Kingdom	548	655
Singapore	410	373
India	336	466

Source: International Trade Statistics. 2013

The reason behind such a peculiar trade scenario is that despite its network of trade agreements and commitments under the WTO, India still has significant tariff and non-tariff barriers that limits its trade with the world.[ii]. Most of the agreements offer only partial access to markets limited to specific goods. India imposes and maintains an average applied tariff of 12.4 per cent, which is among the highest in the world.

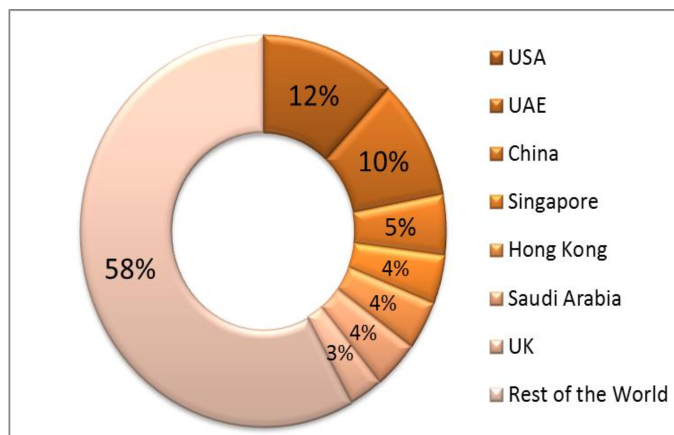
In order to understand India's current limitations and identify untapped opportunities, this report answers questions such as: What are India's main trade partners and current trade balance? How

does India compare in terms of current trade patterns compared with the rest of the world? How are trade policies formulated in India? How consistent are these policies with international trading requirements and practices? What are the import procedures? What are the different costs borne by importers due to these policies and procedures? Are there specific imports for which these costs are unreasonably high? What are these costs in quantitative terms? How distortive are these costs?

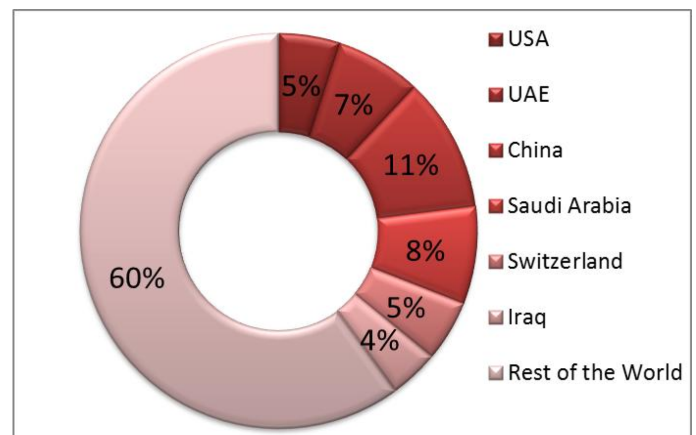
2.0 India's main trade partners, current trade patterns and current trade balance

The USA, UAE, China and Saudi Arabia are very important for India's international trade, because these countries are both major sellers and buyers to India. According to the International Trade Organization (2014), the major export partners of India are the US (12 per cent), United Arab Emirates (10 per cent), China (5 per cent), Singapore (4 per cent), Hong Kong (4 per cent), Saudi Arabia (4 per cent), and the UK (3 per cent); these constitute around 42 per cent of the total export in value terms (Graph-1). The US, UAE, China, Singapore and Hong Kong account for 35 per cent of Indian exports.

Graph 1: Major Export Partners of India



Graph 2: Major Import Partners



Source: Compiled from International Trade Centre (ITC) data, http://www.intracen.org.

The major suppliers to India (import partners) are China (11 per cent), Saudi Arabia (8 per cent), UAE (7 per cent), the US (5 per cent), Switzerland (5 per cent) and Iraq (4 per cent); import from these countries constitutes around 40 per cent of the total value of Import in India (Graph-2). However, trade relations with major import partners such as China, Saudi Arabia, Switzerland, and Iraq are also vital as India witnesses a negative trade balance with these countries. The major imports from these countries are oil and natural gas, manufacturing, machinery and electronics.

It must be noted that India's exports are much more diversified than the imports. Nearly 80 per cent of the total exports are represented by 22 chapters of the harmonized system (HS).[iii] The first two chapters accounts from around 33 per cent of the total Indian exports which means export is moderately skewed towards these products. The first two chapters are mineral fuels, oils and distillation products (HS Code: 27) and pearls, precious stones and metals (HS Code: 71). On the other hand, Indian imports are highly concentrated in a few products. Nine chapters of the harmonized system represents around 80 per cent of India's total imports: mineral fuel, oil and distillation products (HS Code:27), pears and precious stones and metals (HS Code:71), machinery (HS Code:84), electrical, electronic equipment (HS Code: 85), organic chemicals (HS Code:29), commodities not elsewhere specified (HS Code: 99), Iron and Steel (HS Code: 72), plastics and articles (HS Code: 39), animal and vegetable fats and oils (HS Code:15). Among these, the first two categories alone accounts for 54 per cent of total Indian imports.

The trade balance[iv] between India and the partner countries provides a picture of the extent of India's trade dependence (see table-2) in the international market especially with the partner countries.

Table 2: India's trade balance in 2013 with major export and import partners (USD Billion)

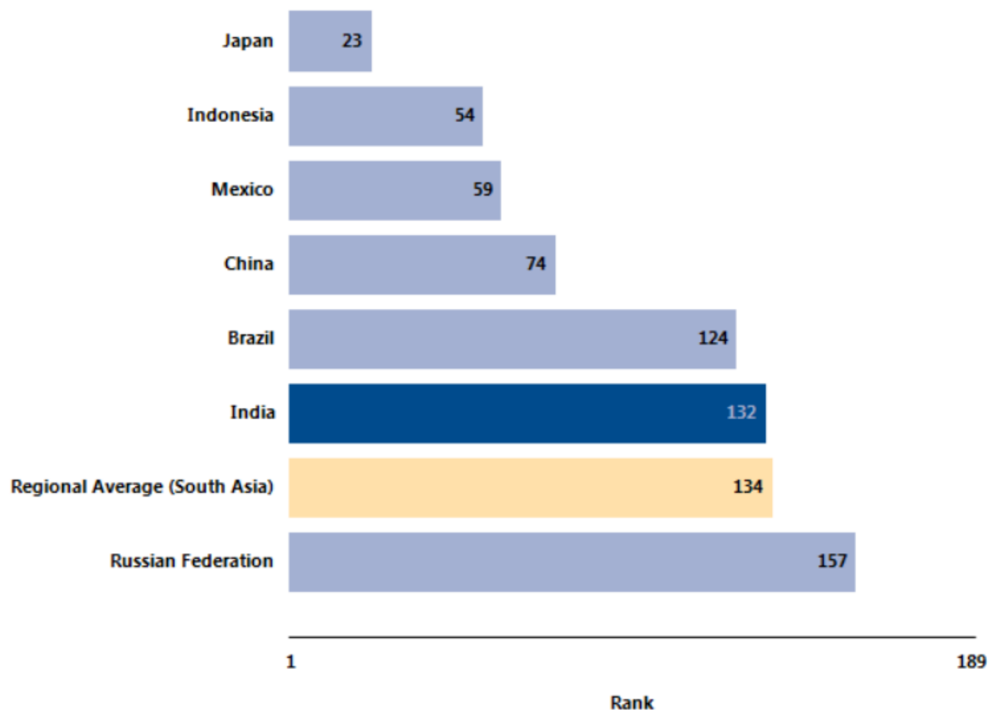
India's Major Export and Import Partners	Exported value	Imported value	India's Trade Balance
World	337	466	-129
United States of America ***(Ex-Im P)***	42	23	19
United Arab Emirates ***(Ex-Im P)***	34	33	1
China ***(Ex-Im P)***	16	52	-35
Singapore ***(Ex-P)***	14	7	7
Hong Kong, China ***(Ex-P)***	14	8	6
Saudi Arabia ***(Ex-Im P)***	12	37	-24
United Kingdom ***(Ex-P)***	11	6	4
Switzerland ***(Im-P)***	2	25	-23
Iraq ***(Im-P)***	1	20	-19

Note: Ex-Im P=both export and import partner; Ex-P=Major export partner; Im-P=Major import partner. Source: Compiled from International Trade Centre (ITC) data, http://www.intracen.org/.

3.0 Trade Policies: Are they consistent with International Trade Requirements?

India's trade policy is formulated and implemented mainly by the Ministry of Commerce and Industry, along with other ministries and agencies including the Ministry of Finance, the Ministry of Agriculture, and the Reserve Bank of India.[v] Are the trade policies consistent with international trade requirements? The answer is in negative affirmative. It is as evident from the study on ease to do business in India. India fell three positions in the ease to do business according to the World Bank (2014) from 131 in 2013 to 134 in 2014 out of 189.

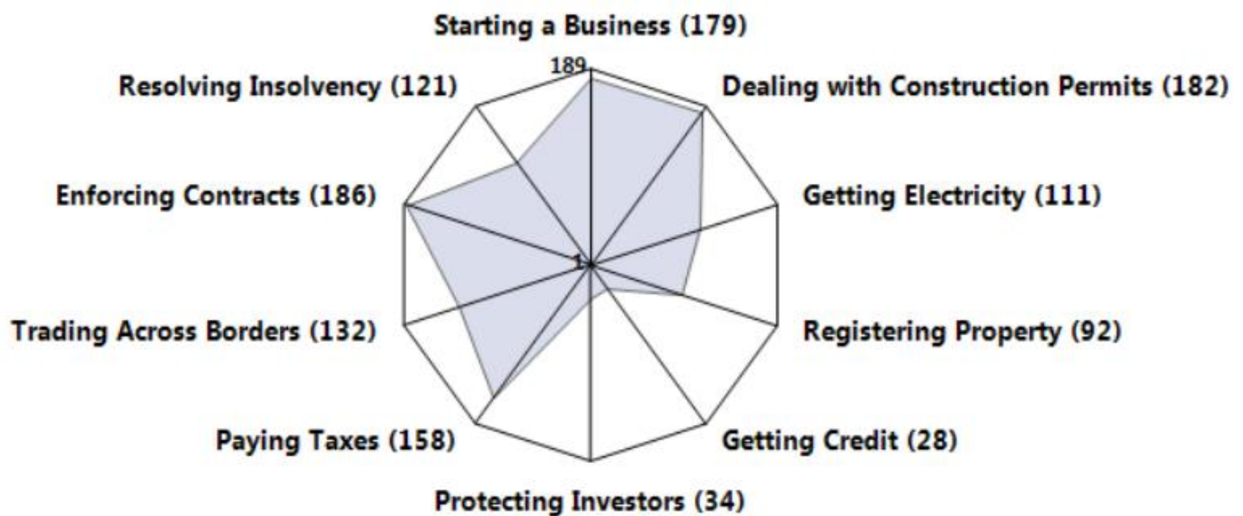
Graph 3. India's ease to trade- compared with selected countries



Source: World Bank, Doing Business (2014B).

Analysing the reasons, it can be noted that trading across borders, together with dealing with construction permits; the ease to start a business, enforcing contracts and paying taxes are the worst rated categories for India. The disaggregated picture is shown in Graph 4.

Graph 4: Disaggregation of Ease of Doing Business in India



Source: World Bank, Doing Business (2014B)

In the case of trading across borders, India, has again slipped three positions compared with 2013. India's performance is behind some direct competitors such as China, Brazil and Indonesia; however, the country performs similarly to its region (South Asia) and has a significant advantage with other BRICS, such as Russia. In The Report on Technical Barriers to Trade, the USTR (2014B) lists a series of measures that the US identifies as technical barriers to trade and which the country is currently discussing with India in bilateral and multilateral mechanisms.

Table 3: Technical Tariff Barriers Identified by USTR

Technical Tariff Barrier	Description
Legal Metrology - Packaged Commodities Rules	These rules stipulate that all pre-packaged commodities are prohibited, unless they are in a standard quantity and carry all prescribed declarations. The different interpretations and ways to enforce them conflict with labeling and packaging requirements maintained by Food Safety and Standards Authority (FSSAI) and the Ministry of Commerce (MOCI). Such circumstances create uncertainty causing detention of shipments at the port of entry and cancellation of import contracts.
Food Safety and Standard Regulations (FSSR)	These are mentioned by the USTR as "onerous India-specific labeling" provisions, which appears inconsistent with the Codex General Standard for the Labelling of Prepackaged Foods recommended practices or international practice.
Security Regulations for Telecommunications Equipment	India retained the objective of testing all "security-sensitive" telecommunications equipment in India by April 2013.
Electronics and Information Technology Equipment – Safety Testing Requirements	The policy mandates exporters to register their products with laboratories affiliated or certified by the Bureau of Indian Standards (BIS). This is regardless any other type of certification internationally recognized laboratories.
Proposed Amendment to the Hazardous Waste Act	The concern is that controls on imports of used electrical and electronic equipment (EEE) for direct reuse and imports of refurbished EEE would impose unnecessary burdens on trade that facilitates reuse and extension of life of EEE.

Source: United States Representative, Report on Technical Barriers to Trade (2014B).

The barriers, general or technical, are clear reflections of trade policies that India follows. Apart from that, import procedures, which are also the outcome of trade policies, hinder smooth international trade.

3.1 Import procedures and Costs borne by importers

Table-4 summarizes all those factors seen by business executives as the most problematic factors for importing in India (Methodology[vi] adopted by the 'The Global Enabling Trade Report' 2014). Among all the eight factors, the first two factors, i.e., the burdensome import procures and tariffs together scores[vii] 45.1, which means they alone represent 45.1 per cent of the total problems or difficulties faced by importers and business executives. Therefore, it becomes imperative to focus on these two vital aspects of importing in India.

Table 4: Most problematic factors for importing in India

Most problematic factors for importing in India	Score
A. Burdensome import procedures	23.7
B. Tariffs	21.4
C. Corruption at the border	15.5
D. High cost or delay caused by domestic transportation	14.0
E. High cost or delay caused by international transportation	9.3
F. Domestic technical requirements and standards	7.1
G. Crime and theft	6.1
H. Inappropriate telecommunication infrastructure	2.9

Source: Compiled from 'Doing Business 2014' http://www.doingbusiness.org/

For clearance of import goods, the importer or his agents have to undertake various formalities and rules which are very tedious and make the import process much difficult. There are 11 essential documents (among the highest in the world) required to Import in India (among the highest in the world) compared to only four documents in the OECD[viii] countries which makes the import process tedious and burdensome (Table 5). The documents to imports are as follows: 1) Bill of Entry (customs import declaration), 2) Bill of landing, 3) Cargo release order, 4) Certificate of Origin, 5) Certified Engineer's Report (technical standard certificate), 6) Commercial Invoice, 7) Foreign Exchange Control Form, 8) Inspection Report, 9) Packing List, 10) Product Manual, and 11)

Terminal Handling Receipts. India also requires double the time (days) compared to the OECD countries to import.

Table 5: Comparing India with South-Asia and OECD countries

Indicator	India	South Asia (Average)	OECD (Average) High Income
Documents to import (numbers)	11	10	4
Time to import (days)	20	34	10
Cost to import (US $ per container)	1,250	1,968	1,090

Source: Compiled from 'Doing Business 2014' http://www.doingbusiness.org/

Table-6 provides the detailed import procedure and the estimated cost per container.

Table6: Disaggregated Import procedures and cost for import in India

Import Procedures in India	Time (days)	Cost per container (USD)
Customs clearance and technical control	4	200
Ports and terminal handlings	5	250
Inland transportation and handling	3	400
Totals* (includes other procedures not mentioned)	20	1,250

Source: Compiled from 'Doing Business 2014' http://www.doingbusiness.org/

Table 6 makes it clear that there occurs heavy delay and huge costs due to cumbersome import procedures. By taking 20 days to clear the procedure, the importers have to bear USD 1250 per container. This is really a heavy toll on the shoulder of importers. This is despite the tariff imposed on the imported goods.

Tariff is the next component to the costs borne by the importers. Lobbying and business groups is another factor in influencing import restrictions. Though lobbying is illegal in India it plays a very important role in influencing or imposing new restrictions on imports in India. An example:

recently added restriction on imported television[ix] and petrochemicals. Licence also plays a negative role for the smooth and continuous international trade, according to USTR. However, the USTR describes India's custom tariff system as complex and characterized by a lack of transparency in determining the net effective rates of customs tariffs and excise duties.[x] In this context it is essential to analyse the import duty in India.

Despite India's efforts for trade liberalization, the country still maintains high peaks on goods such as flowers (60 per cent), natural rubber (70 per cent), automobiles and motorcycles (60-75 per cent sometimes even 100 per cent), high-end sports cars (150-175 per cent), raisins and coffee (100 per cent), alcoholic beverages (150 per cent), and textiles (some rates exceed 300 per cent). India has also established tariff-rate quotas for products such as corn and dairy.

India's tariff regime makes significant disparities in applying tariffs between bound rates[xi] and the most favoured nation (MFN) applied tariffs compared to other countries. Its trade flow follows the agreements made in the WTO and the country is subject to dispute settlement panels. Additionally, under the WTO, India grants Most Favored Nation (MFN) tariffs and it is constrained by a Final Bound Tariff. Nearly 73.8per cent of India's tariff lines have a Bound Tariff. Currently, on average, India has a Final Bound tariff of 113.1 per cent for agricultural products and 34.5 per cent for non-agricultural. The average MFN tariff applied in 2012 was 33.5 per cent for agricultural products and 6.1 per cent for non-agricultural.

Table 7: Disparities in average bound rates and the most favoured nation applied tariffs (%)

Countries	All products		Agricultural product		Non-Agricultural product	
	B	MFN	B	MFN	B	MFN
India	48.6	13.7	113.1	33.5	34.5	10.4
China	25.1	6.0	15.8	15.6	9.1	8.7
Singapore	10.2	0.2	26.5	1.4	6.4	0
USA	3.5	3.4	4.7	4.7	3.3	3.2

Source: Compiled from 'World Tariff Profile 2013' *B- Average Bound MFN- Most favoured nation*

Such a disparity between bound and applied rates creates uncertainty because India has considerable flexibility to change tariff rates at any time. So, market access is denied by high tariff coupled with other factors. The problematic factors for importing in India are further established by

the overall enabling index worked out by World Economic Forum. Even though India is one of the fastest growing economies in the world, it ranks 96th on the overall Enabling Trade Index (ETI) [xii], far behind the other South-Asian countries such as Singapore (rank-1), Japan (rank-13), China (rank-54), Indonesia (rank-58) and Sri Lanka (rank-84). Among the BRICS economics, it lags far behind China and South America and trails Brazil by a few notches, but is 9 places ahead of the Russian Federation.

Table 8: India's Enabling Trade Index

Enabling Trade Index Framework	India's Rank*	Score (1-7)
Enabling Trade Index 2014	96	3.6
Subindex A: Market Access	136	2.4
Pillar 1 Domestic Market Access	135	2.9
Pillar 2 Foreign Market Access	94	2
Subindex B: Border Administration		
Pillar 3 Efficiency and Transparency of Border Administration	74	4.2
Subindex C: Infrastructure	67	3.8
Pillar 4 Availability and Quality of Transport Infrastructure	34	4.3
Pillar 5 Availability and Quality of Transport Services	57	4.3
Pillar 6 Availability and use of ICTs	104	2.9
Subindex D: Operating Environment	73	4.1
*India's Rank out of 138 Countries		

Note: Compiled from 'The Global Enabling Trade Report' 2014.

India ranks 135 in the domestic market access which means that other trading nations find it difficult to export in India. This is followed by only a 10 per cent share of duty free imports. India ranks a satisfactory 34 on the transport infrastructure pillar. But the ICT use remains limited by international standards (104th). The Indian administration is far from leveraging ICTs to their full extent. Red tape and corruption in connection with border administration (74th) lead to inefficiencies, delays and lack of predictability. The disaggregated picture shows more insights about the domestic market access.

Table 9: Disaggregation of Pillar 1: Domestic Market Access

Pillar 1	India		China		Singapore	
Disaggregation↓	**Value**	**Rank**	**Value**	**Rank**	**Value**	**Rank**
Domestic Market access (1-7)	2.9	135	4.2	98	7	3
Tariff rate (%)	12.4	122	11.1	114	0	3
Complexity of tariff index (1-7)	4.9	94	6.3	57	6.9	5
Tariff dispersion (standard deviation)	14.9	121	7.7	45	1.5	5
Tariff peeks (% of tariff lines)	3.2	68	2.3	60	0.1	26
Specific tariffs (% of tariff lines)	6.1	99	0.7	75	0.1	56
Number of distinct tariffs	718	102	106	78	7	28
Share of duty free imports (%)	10.8	120	48.1	89	100	3

Source: Compiled from 'The Global Enabling Trade Report' 2014.

The disaggregation of Pillar 1 (domestic market access) and its comparison with the other Asian countries such as China and Singapore shows that, in terms of domestic market access India ranks 135 position, much behind China (98) and Singapore (3). The most intriguing[xiii] aspect in the list is the number of distinct tariffs which India imposes on imports; it is shockingly more than 100 times higher than Singapore and 7 times higher than China (Table-8). The disaggregation of Pillar-1 also helps us to analyse the reason behind Singapore being ranked1 in the overall 'Enabling Trade Index' performance, and the reason behind India ranking so badly. The success of Singapore's international trade is that, it imposes zero tariffs (India, 12 per cent average applied tariff) and 100 per cent share of duty free imports (India, only 10 per cent). This has helped Singapore to gain preferential treatment in the international market for its exports.

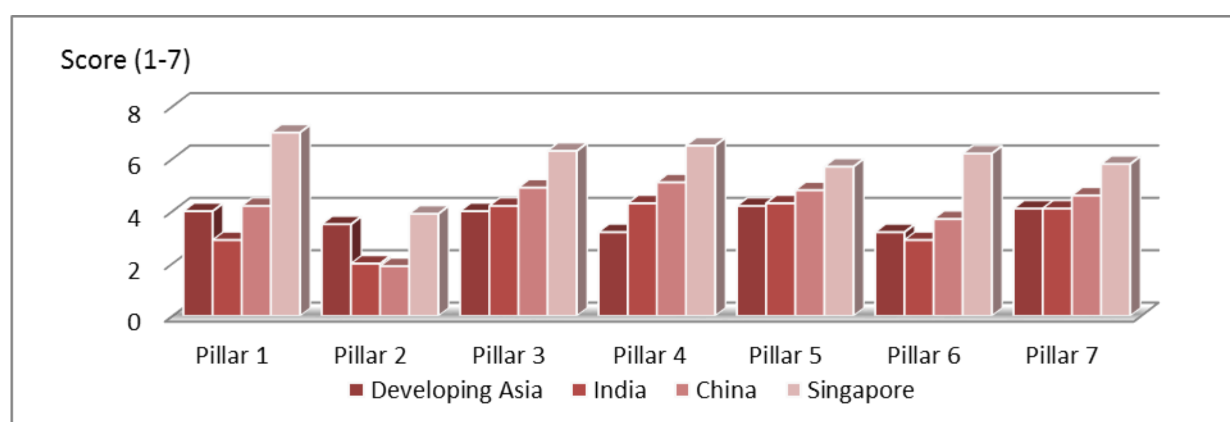
The disaggregation of Pillar 2, (foreign market access), shows that India ranks 94 whereas, Singapore ranks13. Similarly, in terms of percentage of tariff faced, India ranks59, whereas Singapore ranks5. This helps to argue that, Singapore enjoys preferential treatment because it provides duty free imports with hardly any restrictions. Which is contrary to India's case, as India imposes too many restrictions, it also faces restrictions in terms of foreign market access for its exports.

Table 10: Disaggregation of Pillar 2: Foreign Market Access

Pillar 2	India		China		Singapore	
Disaggregation↓	**Value**	**Rank**	**Value**	**Rank**	**Value**	**Rank**
Foreign market access (1-7)	2	94	1.9	125	3.9	13
Tariff faced (per cent)	5.4	59	5.4	58	4.2	5

Source: Compiled from 'The Global Enabling Trade Report' 2014.

Graph 5: Comparing ETI of India with Developing Asia, China and Singapore



Graph 5, gives a pictorial representation of India's relative position/score (1-7) with developing Asia, China and Singapore in terms of all the pillars of 'enabling trade'. It shows that except pillar-2, where India scores marginally higher than China, India scores less than both China and Singapore in all the pillars of 'Enabling Trade' which includes domestic market access, foreign market access, border administration, infrastructure and operating environment.

3.2 A Case study of coffee

In order to understand better the process of importing a product in India, we chose to exemplify it using the sub-header 090111 – Coffee-not roasted, not decaffeinated. If the goods are cleared through the Electronic Data Interchange (EDI) System, no formal bill of entry is filed because it is generated by the computer. However, the importer is required to file a cargo declaration. In the non-EDI system, the importer has to have a bill of entry certifying that the goods specified in description and value are entering the country from abroad. The bill of entry has to be submitted in different copies and different colours for different purposes. A bill of entry for home consumption has to be submitted when the imported goods are for full consumption in India. A bill of entry for

warehouses has to be presented whenever the imported goods are to be stored in a warehouse without payment of duty to be clearer later. Finally, a bill of entry for ex-bond clearance is used for clearing good stored in a warehouse. The goods are classified and valued at the time of clearance (Government of India 2013).

Along with the bill of entry, other documents are generally required are:

- Signed invoice
- Packing list
- Bill of Landing or Delivery Order/Airway Bill
- GATT declaration form duly filled in
- Importers declaration
- License wherever necessary
- Letter of Credit/Bank Draft/wherever necessary
- Insurance document
- Import license
- Industrial License, if required
- Test report in case of chemicals
- Adhoc exemption order
- DEEC Book/DEPB in original
- Catalogue, technical write up, literature in case of machineries, spares or chemicals as may be applicable
- Separately split up value of spares, components machineries
- Certificate of Origin, if preferential rate of duty is claimed
- No Commission declaration

For clearance, except from Bangladesh (0per cent), Bhutan (0 per cent), Maldives (0 per cent), Nepal (0 per cent), Sri Lanka (0 per cent) and Pakistan (20 per cent) India charges an ad-valorem tariff of 100 per cent to the imports of coffee (090111) from the world. In addition to the basic custom duty, customs also charges an education cess, a secondary and higher education cess and an additional countervailing duty, which increases the price of coffee (090111) in 111.12% (Government of India 2014).

Table 11. Legislation regulating non-tariff measures applied by India for 090111 Coffee, not roasted, not decaffeinated

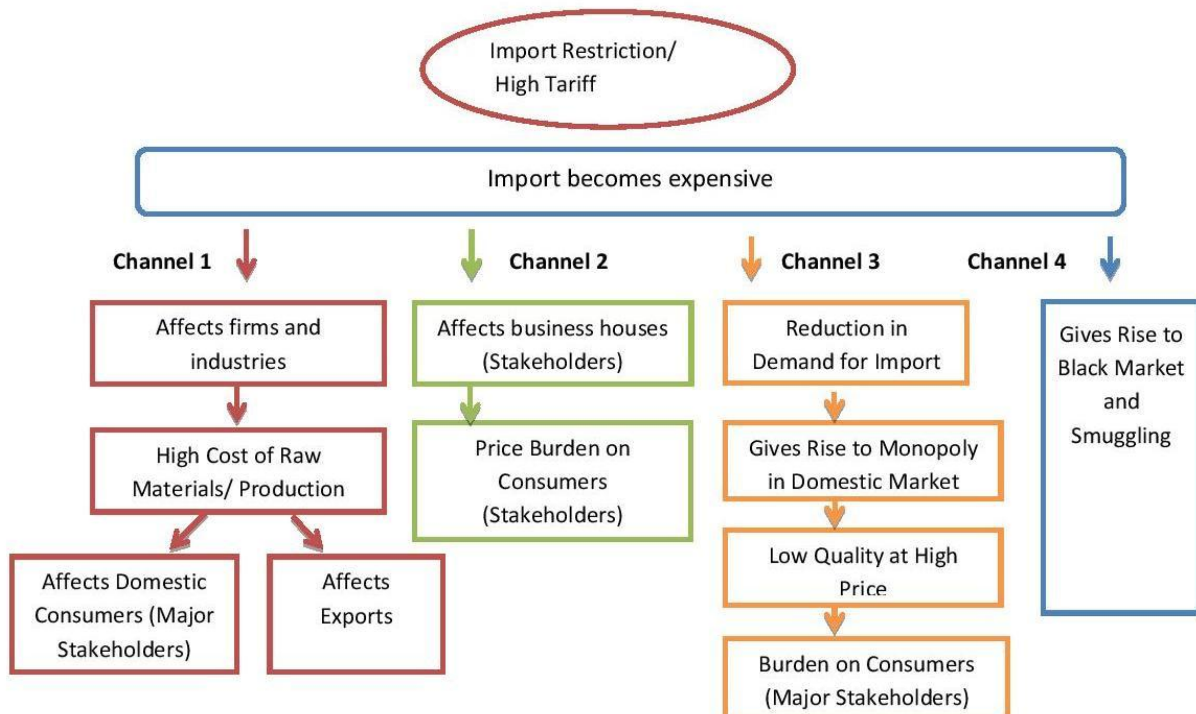
Rule	Type
Agricultural Produce (Grading and Marketing act 1937), General Grading & Marketing Rules, 1988, Legal Metrology (Packaged Commodities) Rules 2011	Technical barrier
Central Board of Excise and Customs – Additional custom duties	Charges, taxes and other quantity control measures
Director General Foreign Trade (DGFT) notification – Identification, Assessment and Collection of Anti-dumping Duty on Dumped Articles and for Determination of Injury, Custom notification No 06/2012 (NT)	Price control measure
Food Safety and Standards (Food Products Standards and Food Additives) Regulations 2011, Food Safety and Standards (Laboratory and Sample Analysis) Regulations 2011, Food Safety and Standards (Packaging and Labeling) Regulations 2011, Food Safety and Standards (Licensing and Registration of Food Business) Regulations 2011, Foreign Trade Policy 2009-14, Plant Quarantine (Regulation of Import into India) Order 2003, Food Safety and Standards (Contaminants, Toxins and Residues) Regulations 2011	Sanitary and phytosanitary measure
Ministry of Defense – Defense procurement procedure 2011	Trade-related investment measures
The Prevention of Food Adulteration Rules, 1955	Technical barrier and Sanitary and phytosanitary measure

Source: International Trade Centre (2014)

4.0 High import duties on trade Distortions

In this section an attempt is made to understand the effects of high import duties on major stakeholders such as domestic customers, business groups, and industries. For an effective evaluation of this process, i.e., the relation between heavy import duties (on imported finished goods and raw materials), and the associated multi-dimensional effect on the economy as a whole can be understood with the help of this analytical framework.

Graph 6: Analytical Framework



The analytical framework includes four channels to describe this phenomenon. It points out the fact that India's international trade describes potential and untapped opportunities for further trade facilitation. In an empirical study, Topalova and Khandelwal (2011) find that lower input tariff on final goods and the access to better inputs have increased firm-level productivity. They claim that the effect was strongest in import competing industries and industries not subject to excessive domestic regulations. According to Zaki (2014), improvements in trade facilitation to lower red tape, or administrative barriers, following WTO provisions for expediting the movement, release and clearance of goods, India can have an export gain of US $35 billion(constant prices 2005) by 2020. Prabir De (2013) affirms that despite services having emerged as crucial economic activities in India, a growing number of barriers have been impeding India's international market access in

the services sector. In his article, an analysis of the linkages between India's services trade flow and its probable barriers is estimated. He estimates that a 1 per cent improvement in services trade facilitation measures would lead to a 2 per cent rise in services exports in India.

4.1 A case study of Gold: Effects of High Import Duty

India is the largest importer of gold in the world[xiv] accounting for 20 per cent of the total import share in 2013. Due to the huge trade deficit (190.91 USD) in the year 2012, the government of India introduced a hike in the customs duty to 10 per cent[xv] (Global Average Import Duty- 3.9 per cent). The immediate effect was that import of gold was reduced to 845 tonnes in 2012-13 as against 919 tonnes during 2011-12. Although, the hike in duty to some extent has helped in reducing the current account deficit and has fetched good amount of customs income, it has also resulted in giving rise to several problems in the Indian economy. The immediate effect is that increase in duty has raised the price of gold in India (Table13), secondly, it has affected the jewellery manufacturers/industry and thirdly, high demand and high import duty gave rise to parallel economy (black marketing and smuggling).

A. Incidence of import duty on domestic consumer

To calculate the incidence of import duty and the loss of consumer welfare, we first calculate the increase in duty amount after adding the basic duty along with other compulsory duties. India imported USD 37.71 billion worth of gold in 2013, which is also the CIF Value comprises the cost, insurance and freight. This CIF value of gold is most important for the calculation of Import duty. Table12 shows that after adding all the basic and additional duties, the total duty amount becomes USD 11 billion.

Table 12: A Disaggregated calculation of Import duty on Gold in India

Formula	Duty Rates (in Per cent)	Duty Amount (USD)
Assessable Value-(A) (CIF[xvi] value + 1 % Landing charge of CIF)		**(A)** 38088965470
Basic Duty -(B) (A)×Basic Duty Rate	10 % (current rate)	**(B)** 3808896547
Preferential Duty-(B) (A)×Pref. Duty Rate	0 %	**(B)** 0
CVD: Additional Duty-(C) (A+B) × CVD Rate	12 %	**(C)** 5027743442.04
Central Excise Edu Cess-(D) (C) × Central Excise Edu Cess Rate	3 %	**(D)** 150832303.26
Customs Education Cess-(E) (B+C+D) × Customs Edu. Cess Rate	3 %	**(E)** 2696,24,168.77
Special CVD- Special Duty-(F) (A+B+C+D+E) × Spl. CVD Rate	4 %	**(F)** 1893842477.24
Total Custom Duty	**(A+B+C+D+E+F)**	11150938938

i. Consumers' welfare loss under different import restriction regimes

As already discussed, that consumption of gold is not confined to any single community in India, we have considered the entire Above Poverty Line (APL) population for the stakeholder analysis for gold consumption. Here, an attempt is made to analyse the incidence of import duty in terms of per capita consumption of gold in value terms.

Table 13: Effect of Import duty on domestic consumers (Major Stakeholder)

APL Population* in India	CIF Amount (USD)	Basic Duty (B)	Total Duty Amount (A+B+C+D+E+F)	Total Value after Tariff (USD)	Per Capita Consumption (USD)
89,06,89,950	37,711,847,000	Situation-A (0%)	0	37,711,847,000	42.34 $
89,06,89,950	37,711,847,000	Situation-B (2%)	7,483,427,656	45,195,274,656	50.74 $
89,06,89,950	37,711,847,000	Situation-C (10%)	11,150,938,938	48,862,785,938	54.86 $

Note: Census 2011 population in India-1,263,390,000 (1.26 Billion). According to Rangarajan committee, 29.5 per cent of the India's population lives below the poverty line (BPL). APL Population*- Population living above the poverty line.

Table13 shows that, in case of 'Situation-A' if all the import duties (basic and additional) are removed, the per capita consumption of gold (in value terms) among the APL population during 2013 is USD 42.34. In case of 'Situation-B' the persistence of 2 per cent duty as before, the per capita consumption would be USD 50.74. 'Situation-C' (hiking basic duties to 10 per cent), the per capita consumption in value terms rose to 54.86 USD. This shows that, the hike in duty (a highly demanded product across population) has increased the per capita consumption on gold by around USD 12 (burden faced by consumer or welfare loss to consumers equals USD 12, approximately INR 760).

ii. Indian consumers' welfare loss compared to the consumers' in the United Kingdom

Table 14: Price difference between India and United Kingdom

Year	Mumbai INR/10 grams	London INR/10 grams	Spread in Rupees
2013-14	29,190	25,739	3,451
2012-13	30,164	28,919	1,245
2011-12	25,722	25,394	328
2010-11	19,227	18,937	290
2009-10	15,756	15,570	186

Note: INR-Indian Rupees. Source: 1. Bombay Bullion Association Ltd; 2. Economic Times, Mumbai; 3. Press Trust of India; 4. IMF IFS; 5. London Bullion Market Association.

Table14 shows that during 2009-10, the difference between the gold prices in India and UK was only INR186 per 10 grams, when the import duty on gold was around 1-2 per cent for both the countries. Although during 2013-14 the prices fell marginally for both the countries (global prices fell by 5 per cent[xvii]), the difference of prices between India and the UK rose to INR 3451 per 10 grams of gold. This is due to the increase of basic import duty to 10 per cent during 2012-13, whereas in the United Kingdom the basic duty is maintained at around 2 per cent. This difference in price (INR 3451 or USD 54.24) between the two countries can be interpreted as the absolute welfare loss of Indian consumer compared to the consumer in the UK in buying 10 grams of gold.

B. Effects of high import duty on domestic jewellery manufacturers:

Given the rise in price of gold and gold artefacts such as jewellery in India, Indian manufacturers are losing business from the NRI customers who constitute major buyers of Indian jewellery. Given the drastic increase in price of the raw material, i.e. gold, it becomes very difficult to compete in the international market, as a result the domestic manufacturers suffered loss and was forced to reduce imports.

C: Illegal activities: black marketing and smuggling:

The hike in import duty on gold has resulted in an increase of smuggling activities in India. It is estimated that smuggled gold into India is likely to reach 200 tonnes in 2013, 50 per cent higher than 2012, (estimated World Gold Council). The Minister of State for Commerce and Industry wrote to Lok Sabha that the number of gold smuggling cases has gone up recently from 500 in 2011-12, to 869 in 2012-13, to further 2441 cases in 2013-14. Gold imports are also serving to channelize undeclared earnings by importers of India. In doing so, the importers over-invoice their imports/manipulate to stash black money in other countries. This stashed money abroad is routed to India by importing gold (official channel or smuggled), which can be disposed in to Indian rupees as gold commands insatiable demand from rural India.

5.0 Conclusion

A detailed evaluation of the ‘Enabling Trade Index’ (ETI) suggests that India imposes a lot of duty restrictions and undue regulations on her imports which is affecting her trade with the rest of the world. To some extent, it also deprives India of her foreign market access for exports. Not only that, imposition of high tariffs are also posing as burden for the importers and major stakeholders such as domestic consumers, traders and manufacturers, as witnessed in the case of gold. What is

more significant is the procedure that hinders smooth and progressive imports to the country. It is very difficult to state which of these factors—tariff and import procedures—is more adverse in creating conducive import environment. However, this study attempts to suggest that import tariffs have to be lessened and more importantly import procedures have to be reduced to create an atmosphere of competition in policy action.

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[i] International Trade Statistics database http://www.trademap.org/tradestat/Country_SelProduct_TS.aspx

[ii] Discussed in details in section- , in Enabling Trade Index (ETI) Framework.

[iii] Refer the World Customs Organization (WCO) website for more information on Harmonized System (HS): http://www.wcoomd.org/en/topics/nomenclature/instrument-and-tools/hs-online.aspx

[iv] Trade balance is the difference between the import and the export value of a country.

[v] The Director General of Foreign Trade advices the Government in the formulation of India's Foreign Trade Policy (FTP) after consulting with various trade bodies, such as the Federation of Indian Export Organisations, the Federation of Indian Chambers of Commerce and Industry, the Confederation of Indian Industries, and various other councils. The Tariff Commission, also within the Ministry, issues recommendations on the appropriate tariff levels. However, the tariff and other duties are under the purview of the Central Board of Excise and Custom (CBEC) at the Ministry of Finance.

[vi] The score shows the responses weighted according to their respective rankings. The information is drawn from the 2013 edition of the World Economic Forum's Executive Survey. Respondents were asked to select the most problematic factors from a list of twelve and eight, respectively for exporting and importing. Respondents were further asked to rank these from 1 (most problematic) to 5. A score was assigned for each answer based on the rank, from 5 points for the first-ranked factor to 1 point for the fifth-ranked. These are then put into a percentage distribution.

[vii] Score of all these factors adds up to 100.

[viii] OECD means Organization for Economic Co-operation and Development, member countries are: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Israel, Italy, Japan, Korea, Luxemburg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States.

[ix] The CEAMA (Consumer Electronics and Appliances Manufacturers Association of India), for some time, had been lobbying the government to restrict imports of 'Flat Panel TVs'. This resulted in the imposition of 36.05 per cent of import duty from August 26th 2013 onwards. Previously this item was carried as personal baggage (Zero

import duty on electronics valued up to USD 600) by customers and travellers from mainly Dubai, Bangkok or Singapore where the difference in price is around 30-35 per cent lesser compared to India.

[x] India, often fails to observe transparency requirements, such as publication of timing and quantity restrictions in its official gazette or notification to WTO committees.

[xi] Maximum rate of tariff allowed by WTO to any member state for imports from another member state is called bound rate. The term MFN means the country which is the recipient of this treatment must, nominally, receive equal trade advantages as the "most favoured nation" by the country granting such treatment.

[xii] The ETI framework captures the various dimensions of enabling trade, breaking them into four overall issue areas, called subindexes: A. Market access measuring tariff regime. B. Border administration assessing the quality, transparency and efficiency of border administration in the country. C. Infrastructure measuring the quality and availability of infrastructure necessary for trade. D. Operating environment: (The Global Enabling Trade Report, 2014).

[xiii] Lot of variations exist between tariffs of similar products such as garments. For example, the tariff on ski suits is 18 per cent, other garments, men's or boys is 17 per cent (if made of cotton), 7.5 per cent on clerical or ecclesiastical garments or vestments (made of man-made fibre and 6 per cent on saris. William Watson, "Lets end three digit taxes on imported goods", Montreal Gazette, November 5, 2014, http://montrealgazette.com/news/national/opinion-lets-end-three-digit-taxes-on-imported-goods.

[xiv] On average India imports in excess of 1000 tonnes annually this includes unofficially smuggled gold. The annual gold imports were around USD 50 billion (2012) which was only next to crude oil imports. Gold imports cost is nearly 3 per cent of the GDP. http://en.wikipedia.org/wiki/Gold_Control_Act.

[xv] This has resulted in the decline in the official imports to 638 tonnes in 2013-14 from 845 tonnes in the previous fiscal year.

[xvii] Rahul Oberoi, "Losing its Glitter", Business Today, October 26, 2014, http://businesstoday.intoday.in/story/gold-prices-us-economy-current-accountdeficit/1/211037.html.