**Commentary Planning Sheet Economics IB**

The overall aim is to use your economics knowledge to explain an event or change in the world around us.

Title of Article: **Industry for rethink on Chinese FDI curbs, high import tariffs**

Source: <https://www.thehindu.com/business/Industry/industry-for-rethink-on-chinese-fdi-curbs-high-import-tariffs/article68324737.ece>

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Key concept: **Interdependence**

(Understanding in relation to the course:

Individuals, communities and nations are not self-sufficient. Consumers, companies, households, workers, and governments, all economic actors, interact with each other within and, increasingly, across nations in order to achieve economic goals. The greater the level of interaction, the greater will be the degree of interdependence. In a highly interdependent economic world, decisions by certain economic actors are likely to generate many, and often unintended, economic consequences for other actors. A consideration of possible economic consequences of interdependence is essential when conducting economic analysis.)

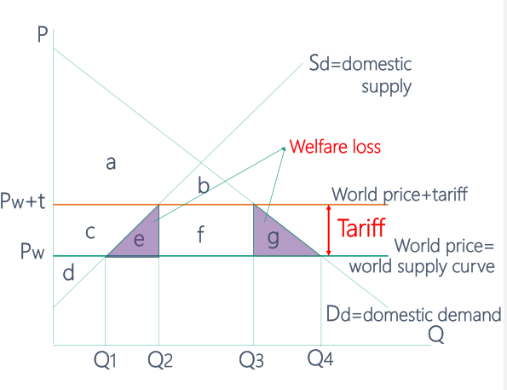
Terms in the article or related to the article that would require definition:

1. Trade Protection: Government intervention aiming to limit imports and/or encourage exports by setting up trade barriers that protect from foreign competition.
2. Tariff: A tax that is placed on imports to protect domestic industries from foreign competition and to raise revenue for the government

What change/policy is discussed in the article?

India has imposed a tariff on electronics components imported from China. In the article the writer wrote about Indian industry urged the government to adjust its restrictions on electronic materials’ high tariff. The policy made India less competitive comparing to China and Vietnam instead of boosting localization of critical inputs.

What diagram(s) could you draw and explain to illustrate this change? Sketch them. Often the first diagram will illustrate a problem, while the second diagram will show the suggested policy solution.



Now, evaluate this change. If there is a policy solution, is it likely to solve the problem? What are the likely effects, both positive and negative, or on various stakeholders? If you can, rank the impacts from biggest to least, with reasons. Lastly, for the best sort of evaluation, how does this instance reflect on economic theory itself? Does what happened or what is suggested in your news article accord with what economic theory suggests should happen? If not, why not?

Policy effect: The Indian government aims to achieve greater self-reliance in electronics sector through high import tariff, to reduce dependence on foreign components and encounrage domestic manufacturing. By promoting localization and support initiatives like the PLI scheme, the government hopes to boost local industries and create a more competitive environment. However, in an increasingly **interdependent** global market, the strategy might not be beneficial comparing to collaborative development through importation.

“the import tariffs on priority sub-assemblies and components need to be urgently rationalised.”

Advantages：

1. **Protection of Local Industry**: Tariffs can provide a temporary shield for domestic manufacturers by making imported electronics components more expensive. This protection can encourage local production and investment, potentially fostering a more self-sufficient industry and reduce the **interdependence**. (“the move aimed at preventing predatory acquisitions during the pandemic”)
2. **Incentivizing Localization**: By raising costs on imports, tariffs may push Indian manufacturers to innovate and develop local alternatives, leading to long-term growth in domestic capabilities. This aligns with CII’s objective (“the Confederation of Indian Industry (CII) has outlined “critical actions required to transition India’s electronics sector ecosystem from an ‘import dependent assembly-led manufacturing’ to ‘component level value-added manufacturing’.”)

Disadvantages：

1. **Increased Costs for Manufacturers**: The imposition of high tariffs (“118 electronic-related tariff lines range from zero to 27.5%”) increases manufacturing costs for Indian electronics producers, eliminate the low 4%-6% benefit brought by the PLI (lose its effectiveness in the face of “tariff-induced cost”). This ultimately makes Indian goods less competitive globally (“they have made Indian electronics goods globally uncompetitive vis-à-vis rivals such as Vietnam and China rather than boosting localisation of critical inputs.”).
2. **Dependence on Imports for Components**: India relies heavily on imports from China for critical components. High tariffs can disrupt the supply chain and lead to shortages of essential parts, hampering production. (“India’s components demand is largely met through imports from China and short-term strategies are likely to have adverse impact on potential expansion of domestic manufacturing… ”) The world trade is highly collaborative and **interdependent**, the sudden imposition of tariff can cause an obvious decrease in tech materials, reducing Indian industry’s advantage in electronic device production.
3. **Stifled Innovation and Growth**: High tariffs may deter foreign investment and technology transfer (“these curbs have hurt India’s component ecosystem development and sent out a message of “non-friendly investment environment.”). This could hinder India’s ability to develop a robust electronics sector in the long run, especially when competing with countries that have more favorable tariff structures.

In an **interdependent** world, no country can aspire to produce all components for domestic consumption and a right balance between imports and exports of higher value-added products is the recipe for long term industrial sustenance, the report argued. “The largest electronics manufacturer China with its $1.6 trillion international electronics trade relies on 42% imports,” it pointed out.

# Industry for rethink on Chinese FDI curbs, high import tariffs

## Country’s electronics sector is heavily import-dependent for vital components; PLI scheme may no longer help, cautions CII

India’s import duties on electronic-related tariff lines range from zero to 27.5%, burdening manufacturing costs.  | Photo Credit: Getty Images

Indian industry has urged the government to revisit its restrictions on investment inflows and the movement of skilled personnel from China, and slash high import duties on electronics components as they have made Indian electronics goods globally uncompetitive vis-à-vis rivals such as Vietnam and China rather than boosting localisation of critical inputs.

Warning that the Production Linked Incentive (PLI) scheme for large-scale electronics manufacturing, introduced in April 2020 to offset some cost disadvantages, may soon lose its effectiveness in the face of “tariff-induced cost”, industry players have flagged that the 4%-6% fiscal support under PLI is “grossly inadequate to negate the overall disability as compared to China and Vietnam”.

In a report on “Developing India as the Manufacturing Hub for Electronics Components and Sub-Assemblies”, the Confederation of Indian Industry (CII) has outlined “critical actions required to transition India’s electronics sector ecosystem from an ‘import dependent assembly-led manufacturing’ to ‘component level value-added manufacturing’.

On the restrictions imposed in 2020, through Press Note 3, on foreign direct investment (FDI) from countries sharing land borders with India, the report said the move aimed at preventing predatory acquisitions during the pandemic has now outlived its utility and must be reconsidered with “adequate guardrails”.

#### Non-restrictive approach

“India should adopt a non-restrictive approach towards investments, component imports, openness towards technology transfer in deficient areas, ease of inward movement of skilled manpower and easing of non-trade tariffs,” the report said, stressing these curbs have hurt India’s component ecosystem development and sent out a message of “non-friendly investment environment”.

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“India’s components demand is largely met through imports from China and short-term strategies are likely to have adverse impact on potential expansion of domestic manufacturing… The import tariffs on priority sub-assemblies and components need to be urgently rationalised in line with key competing economies. Majority of tariff lines need to be brought under the level of 5% or lower to ensure that product manufacturers become competitive,” the report mooted.

India’s import duties on 118 electronic-related tariff lines range from zero to 27.5%, with the largest number of components falling in the 10%-15% range, burdening manufacturing costs. About 47.2% of the electronic imports pass through under zero tariff, the remaining 52.8% imports are subjected to varying tariff levels but largely over 10%.

Referring to five ‘priority components and sub-assemblies’ of batteries, camera modules, mechanicals, displays and printed circuit boards, the report said they either have a nominal production in India or are heavily import dependent. In 2023, India’s demand for components and sub-assemblies stood at $45.5 billion to support $102 billion worth of electronics production. This demand is expected to touch $240 billion for $500 billion worth of electronics output by 2030.

“The zero tariff lines for India is less than half of China and Vietnam while these countries make it favourable for importers through less tariff lines under mid and high rates,” the CII report noted. It also recommended a scheme to provide fiscal support in the range of 6%-8% for critical components production.

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