



## **PRESS RELEASE**

### **High tariffs on smartphone inputs discourage GVCs, adversely impact competitiveness and limit exports**

*Industry study shows India's input tariffs to be highest amongst 6 competing manufacturing destinations*

**New Delhi, January 10, 2024:** Premier electronics manufacturing industry body, India Cellular & Electronics Association (ICEA) has released a 7-country study on tariffs on components and subassemblies for making smartphones in India. The study shows that India has the highest tariffs on inputs. Further that, high tariffs increase costs, and make India less competitive, making it difficult for companies to join GVCs and simultaneously discourage GVCs from shifting large scale production to India. Competitiveness is critical to building scale, which in turn positively impacts domestic value addition and job creation.

#### ***What has changed? Why input tariffs matter now?***

India's smartphone manufacturing has been transformed from 78% import dependency in revenue terms in 2014-15 to only 4% in 2022-23. Now, 99.2 % of mobile phones sold in India are made in India. India's domestic production exceeds domestic demand, while simultaneously, domestic smartphone demand except in the very high-end phones is slowing down. Exports have become the main driver of future growth and job creation.

India's smartphone exports jumped 100% in FY 2022-23 to \$11.1 billion over the previous fiscal. The industry expects exports of \$15 billion in FY 2024. Exports will form 30% of the total production of \$49-50 billion in current fiscal. Expanding exports require competitiveness, which in turn requires large GVCs shifting major production lines to India and bringing Indian companies into the supply chain. Unless India can match China and Vietnam's competitive tariff regime in addition to other factors which impact competitiveness, export growth will also start seeing a slowdown beyond the current fiscal.

Pankaj Mohindroo, Chairman, ICEA, remarked "To achieve this target of high export, India needs more than just ambition; it requires a tangible shift of global value chains, bringing major production lines to India and integrating our businesses into the international supply web."

He further remarked, "India has an immense opportunity to increase its competitiveness and large-scale manufacturing to address the global market and integrate into GVC by making our tariffs competitive vis-à-vis competing nations."

***India's input Tariffs are much higher compared to China and Vietnam***

The study shows that India's simple average MFN tariff for inputs is 8.5%, higher than China's 3.7%. In practice, China's tariffs are closer to zero because most mobile production takes place in 'Bonded zones' where all inputs are at zero tariffs (see **Table 1**). Nearly 80% of Vietnam's imported inputs are from countries with whom it has FTAs. Hereto, FTA weighted average tariff comparison between India and Vietnam shows that India's simple average is at 6.8% vis-a-vis Vietnam's at 0.7% (see **Table 1**).

### ***Too many tariff slabs and high tariffs in India***

The highest tariffs for both China and Vietnam are 10% maximum. By contrast, India has many more tariff lines, in addition to higher tariffs (see **Table 2**). Almost all (97%) of Vietnam's weighted average tariffs are between zero to 5%, while 60% of China's tariff lines are in that range. A line-by-line comparison of India's non-zero tariffs shows that India has higher MFN tariffs for 85% of these lines compared to China, and 100% of the lines compared to Vietnam.

### ***High Tariffs impact India's manufacturing competitiveness***

Higher tariffs of India result in an overall loss of competitiveness of about ~ 6% to 7% compared to Vietnam and China. The study's results also indicate that the price rise due to India's high tariffs on inputs perpetuate imports, contrary to policy objectives of building a local ecosystem and increasing domestic value addition.

"To seize the opportunity, India should address tariff competitiveness. This is vital to unlock our potential in global electronics manufacturing and trade and integrating India to GVCs ." concluded Mr Mohindroo.

### ***Glide Path to Tariff Reduction***

The Study seeks a glidepath for reducing India's input tariffs to match the competitiveness of China and Vietnam. The revenue foregone under the tariff glidepath is more than compensated by the additional revenue generated for the government on account of higher affordability and increased production and sales of smartphones. Industry assessment shows that during the 5-year proposed PLI outflow of ~ Rs. 35,000 crores, the government will earn additional Rs. 1 Lakh crores on account of increase in GST announced in April 2020, and Rs. 60,000 crores on account of customs duties during the corresponding period of the PLI Scheme. In essence, the recommendations for reduction in customs duty will still leave the Government with incremental revenue of over Rs. 1 lakh crores, majority of which will be accrued to the Central Government.

To attract GVCs and increase scale of production, the Study recommends that:

1. All tariff lines which increase costs significantly, including components of complex sub-assemblies, should be identified, and brought down to Zero (see **Table 3**).
2. Tariffs on "Others" category of parts of smart phones/mobile phones should be urgently lowered from 15% to 10% to reduce instances of misinterpretation, and avoid any litigation or EODB issues.
3. The current high and complex traffic structure be simplified to only 3 slabs by 2025: 0%, 5% and 10%.

**About ICEA:** India Cellular & Electronics Association is an apex industry body representing the entire electronics value chain and striving to make India a global hub for electronics manufacturing and exports.

**Website:** <https://www.icea.org.in>

**LinkedIn:** <https://www.linkedin.com/company/india-cellular-electronics-association/>

**Twitter:** [@ICEA\\_India](https://twitter.com/ICEA_India)

**Table 1: Comparison of India's MFN and FTA tariffs with China and Vietnam**

India Vs China		India Vs Vietnam	
Simple Avg of MFN Tariff		Simple Avg of FTA Weighted Avg Tariff	
<b>INDIA</b>	<b>8.5</b>	<b>INDIA</b>	<b>6.8</b>
<b>CHINA</b>	3.7 (MFN Tariff) / 0% (Effective Tariff in bonded zone)	<b>VIETNAM</b>	0.7

**Table 2: Comparison of tariffs across 65 tariff lines in India, China and Vietnam**

MFN Tariff Distribution (India & China)						
COUNTRIES	Zero	0+ to 5%	5+ to 10%	10+ to 15%	15+ to 20%	20+ to 25%
<b>INDIA</b>	15	9	6	<b>21</b>	<b>11</b>	<b>3</b>
<b>CHINA</b> *China has 2 HSN codes with different MFN tariffs, hence 67 tariff lines considered	36	3	28	No components or sub-assemblies above 10% tariffs		
Distribution of FTA Weighted Average Tariffs (India & Vietnam)						
COUNTRIES	Zero	0+ to 5%	5+ to 10%	10+ to 15%	15+ to 20%	20+ to 25%
<b>INDIA</b>	15	12	17	<b>15</b>	<b>5</b>	<b>1</b>
<b>VIETNAM</b>	39	24	2	No components or sub-assemblies above 10% tariffs		

**Table 3: Recommended Glidepath of Tariffs in Union Budget 2023-24**

S.No.	Description	HSN	2023-24	2024-25
<b>1. DUTY REDUCTION FROM 20%</b>				
	• Charger/ Adapter	85044030 / 85044090	20	15
	• Printed Circuit Board Assembly (PCBA)	85177910	20	15
<b>2. DUTY REDUCTION FROM 15%</b>				
	• Others	85177990	15	10

• <b>Mechanics</b>	85177990 / 73269099 / 73181500	15	10
• <b>Inputs of Mechanics</b>	Any Chapter	15	0
• <b>Mic and receiver and Speaker</b>	85177990 / 85182990	15	10
<b>3. DUTY REDUCTION FROM 5%</b>			
• <b>Cell</b>	85076000	5	0
<b>4. DUTY REDUCTION FROM 2.5%</b>			
• <b>Ferrite inductor</b>	85045090	2.5	0
• <b>Other parts of Battery charger/ Adapter</b>	Any Chapter	2.5	0
• <b>Parts of PCBA</b>	Any Chapter	2.5	0
• <b>Parts of Camera Module</b>	Any Chapter	2.5	0
• <b>Parts of Connector</b>	Any Chapter	2.5	0