

Customs Duty Rationalization in the Union Budget

2020-21: An Assay

I. Introduction: Union Budget 2020-21 Announcements to rationalize Customs Duties

The **Union Budget 2020-21** announced a spate of measures to rationalize Custom Duties with a view to meeting the twin objectives of “promoting domestic manufacturing and helping India get onto global value chain and export better.” Outmoded exemptions on Customs Duties have either been dispensed with or are put up for review through a consultative process. From 1st October 2021, the Budget proposed a revised customs duty structure, free of distortions, valid up to the 31st March following two years from the date of its issue.

Further, with a view to ease procedures and compliance, certain changes were announced in the provisions relating to ADD and CVD levies, including prescribing definite timelines to complete Customs investigations. The Turant Customs initiative, for “Faceless, Paperless, and Contactless Customs measures” was introduced in 2020. With effect from September 2020, a new procedure was implemented for administration of Rules of Origin to check on misuse of FTAs.

The following table summarizes the sector/industry-wise announcements in the realm of Custom Duty in Hon’ble Finance Minister’s Budget speech:

Table 1: Budget 2020-21 Announcements on Custom Duty Changes, Sector/Industry Wise

Industry	Intervention	Rationale for International Trade Value Addition of India	Anticipated Direction of Imports by Policymakers (Increase or Decrease)
Electronic and Mobile Phone Industry	<ul style="list-style-type: none">• Withdrawal of few exemptions on parts of chargers and sub-parts of mobiles.• Also, some parts of mobiles will move from ‘nil’ rate to a moderate 2.5%.	<ul style="list-style-type: none">• Greater domestic value addition, reduction in imports.• Higher exports of items such as mobiles and chargers.	↓
Iron and Steel	<ul style="list-style-type: none">• Reduction of Customs duty uniformly to 7.5% on semis, flat, and long products of non-alloy, alloy, and stainless steels. Exemption of duty on steel scrap for a period up to 31st March, 2022.• Revoking ADD and CVD on certain steel products.• Reduction of duty on copper scrap from 5% to 2.5%.	<ul style="list-style-type: none">• Boosting imports by MSMEs and other user industries (severely hit by recent sharp rise in iron and steel prices).• Providing relief to metal recyclers, mostly MSMEs to enable higher imports• Providing relief to copper recyclers to aid imports	↑

Textile	<ul style="list-style-type: none"> • Rationalization of duties on raw material inputs to manmade textiles: bringing nylon chain on par with polyester and other man-made fibers. • Uniformly reduction of the BCD rates on caprolactam, nylon chips and nylon fiber & yarn to 5%. 	<ul style="list-style-type: none"> • The Textiles Sector is labour intensive and second largest employment generating sector after agriculture, and contributes significantly to the economy. • Reducing duty on imports of raw material will help the textile industry, MSMEs, and exports. 	↑
Chemicals	<ul style="list-style-type: none"> • Calibration of customs duty rates on chemicals to encourage domestic value addition and to remove inversions. • Reduction of customs duty on Naptha to 2.5% to correct inversion. 	<ul style="list-style-type: none"> • Carbon Black, Bis-phenol A, Epichlorohydrin custom duties increased and custom duty on Naphtha reduced to correct inversion. • A duty structure is said to be 'inverted' when the import duty on the raw material is higher than the finished products. Inverted duty structure makes Indian manufactured goods uncompetitive against finished product imports in domestic market. 	↓ ↑ for industries using Naptha as input
Gold and Silver	<ul style="list-style-type: none"> • Reduction of duty on Gold and silver that were attracting a basic customs duty of 12.5%. 	<ul style="list-style-type: none"> • With custom duty raised from 10% in July 2019, prices of precious metals have risen sharply. • To bring it closer to previous levels, rationalization in terms of reduction of custom duty on gold and silver. 	↑
Renewable Energy	<ul style="list-style-type: none"> • To encourage domestic production, custom duty on solar invertors raised from 5% to 20%, and on solar lanterns from 5% to 15%. 	<ul style="list-style-type: none"> • With huge potential for solar energy in India, to step up domestic capacity, a phased manufacturing plan for solar cells and solar panels shall be notified. • Encouragement of "Make in India" for NRE sector 	↓
Capital Equipment and Auto Parts	<ul style="list-style-type: none"> • Withdrawal of exemptions (zero duty) on tunnel boring machine that 	<ul style="list-style-type: none"> • To capitalize on the immense potential in manufacturing heavy capital equipment 	

	<p>will now attract a customs duty of 7.5%; and its parts a duty of 2.5%.</p> <ul style="list-style-type: none"> • Customs duty raised on certain auto parts to 15%. 	domestically, duty rates on certain items immediately increased.	↓
MSME Products	<ul style="list-style-type: none"> • Increase in duty from 10% to 15% on steel screws and plastic builder wares. • On prawn feed, duty increased from 5% to 15%. • Rationalization of exemption on import of duty-free items as an incentive to exporters of garments, leather, and handicraft items to boost domestic production by MSMEs. • Withdrawal of exemption on imports of certain kind of leathers as they are domestically produced in good quantity and quality, mostly by MSMEs. • Customs duty raised on finished synthetic gem stones to encourage domestic processing. 	<ul style="list-style-type: none"> • Changes to benefit MSMEs. • Encouraging “Make in India” by MSMEs 	<p>↓</p> <p>↑ for certain items of garment, leather, handicrafts where exemptions continue</p>
Agriculture Products	<ul style="list-style-type: none"> • Customs duty increased on cotton from nil to 10% and on raw silk and silk yarn from 10% to 15%. • Withdrawal of end-use based concession on denatured ethyl - alcohol. • Rates are being uniformly calibrated to 15% on items like maize bran, rice bran oil cake, and animal feed additives. • Agriculture Infrastructure and Development Cess (AIDC) proposed on a small number of items. However, while applying this cess, care to be taken not to put additional burden on consumers on most items. 	<ul style="list-style-type: none"> • To benefit cotton and silk farmers and shield against imports • AIDC proposed to improve agricultural infrastructure immediately for processing agricultural output efficiently and enhanced remuneration to farmers. 	↓

Source: Union Budget 2020-21 Speech

The specific details on Table 1 are indicated in Annexure-A and Annexure-B.

II. Sectoral Analysis of Budgetary Measures with Trade Indicators

The Union Budget 2020-21 announced a slew of measures to rationalise customs duties across sectors like Mobile Phones parts, Iron and Steel, Textiles, Chemicals, precious metals like Gold and Silver, Renewable Energy , Capital Equipment and Auto Parts, MSME products and agricultural products. In this section, we examine the international trade patterns of some of these commodity groups, whether India is a net importer or exporter of these commodities, whether the import appetite of India with respect to the world is better for these product categories and try to understand the rationale behind the budgetary interventions on duties. The following commodity groups in Table 2 are the categories of merchandise whose imports and exports from India are analysed in tables 3,4,5 and 6:

Table 2: Budget 2020-21 Announcements on Custom Duty Changes on Merchandise (with ITC-HS Code and Description)

Commodity Code	Commodity Description
HS-28	Inorganic chemicals; organic and inorganic compounds of precious metals; of rare earth metals, of radio-active elements and of isotopes
HS-29	Organic chemicals
HS-38	Chemical products n.e.c.
HS-7106	Silver (including silver plated with gold or platinum); unwrought or in semi-manufactured forms, or in powder form
HS-7108	Gold (including gold plated with platinum) unwrought or in semi-manufactured forms, or in powder form
HS-72	Iron and steel
HS-73	Iron or steel articles
HS-85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers, parts and accessories of such articles
HS-8517	Telephone sets, including telephones for cellular networks or for other wireless networks; other apparatus for the transmission or reception of voice, images or other data (including wired/wireless networks), excluding items of 8443, 8525, 8527, or 8528
HS-86	Railway, tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds

Source: UN Comtrade Database

Table 3: Export Value (in billion US\$) of Product Categories from 2015-2019 with Customs Intervention in Budget 2020-21

Commodity Code	2015	2016	2017	2018	2019
HS-28	1.25	1.24	1.62	2.03	1.82
HS-29	11.30	11.25	13.56	17.78	18.25
HS-38	3.03	3.15	3.71	4.42	5.14
HS-7106	0.00	0.01	0.01	0.01	0.01
HS-7108	5.31	4.34	2.27	0.00	0.10
HS-72	6.31	6.44	11.71	9.95	9.77

HS-73	6.51	5.82	6.65	7.09	7.25
HS-85	7.94	8.22	8.79	11.84	14.94
HS-8517	0.79	0.99	1.04	2.04	4.29
HS-86	0.08	0.18	0.30	0.51	0.35
Total Export Value of India to World	264.38	260.33	294.36	322.49	323.25

Source: UN Comtrade Database

Table 4: Export Share (in %) of Product Categories from 2015-2019 with Customs Intervention in Budget 2020-21

Commodity Code	2015	2016	2017	2018	2019	Commodity's Average share in Exports (%)
HS-28	0.47	0.48	0.55	0.63	0.56	0.54
HS-29	4.27	4.32	4.61	5.51	5.64	4.87
HS-38	1.15	1.21	1.26	1.37	1.59	1.32
HS-7106	0.00	0.00	0.00	0.00	0.00	0.00
HS-7108	2.01	1.67	0.77	0.00	0.03	0.90
HS-72	2.39	2.47	3.98	3.09	3.02	2.99
HS-73	2.46	2.24	2.26	2.20	2.24	2.28
HS-85	3.00	3.16	2.99	3.67	4.62	3.49
HS-8517	0.30	0.38	0.35	0.63	1.33	0.60
HS-86	0.03	0.07	0.10	0.16	0.11	0.09

Source: UN Comtrade Database

Table 5: Import Value (in billion US\$) of Product Categories from 2015-2019 with Customs Intervention in Budget 2020-21

Commodity Code	2015	2016	2017	2018	2019
HS-28	5.07	4.82	5.59	7.27	6.81
HS-29	15.92	14.77	17.97	22.59	20.53
HS-38	4.03	4.41	5.23	5.94	5.77
HS-7106	4.26	1.83	2.99	3.85	2.94
HS-7108	35.00	22.94	36.15	31.76	31.18
HS-72	11.71	8.71	9.96	12.00	11.80
HS-73	3.75	3.52	3.74	4.99	5.02
HS-85	35.93	37.01	46.85	52.45	50.85
HS-8517	15.81	14.73	20.61	18.72	13.52
HS-86	0.47	0.42	0.39	0.65	0.52
Total Import Value of India to the World	390.74	356.70	444.05	507.62	478.88

Source: UN Comtrade Database

Table 6: Import Share (in %) of Product Categories from 2015-2019 with Customs Intervention in Budget 2020-21

Commodity Code	2015	2016	2017	2018	2019	Commodity's Average share in Imports (%)
HS-28	1.30	1.35	1.26	1.43	1.42	1.35
HS-29	4.07	4.14	4.05	4.45	4.29	4.20
HS-38	1.03	1.24	1.18	1.17	1.21	1.16
HS-7106	1.09	0.51	0.67	0.76	0.61	0.73
HS-7108	8.96	6.43	8.14	6.26	6.51	7.26
HS-72	3.00	2.44	2.24	2.36	2.46	2.50
HS-73	0.96	0.99	0.84	0.98	1.05	0.96
HS-85	9.19	10.37	10.55	10.33	10.62	10.21
HS-8517	4.05	4.13	4.64	3.69	2.82	3.87
HS-86	0.12	0.12	0.09	0.13	0.11	0.11

Source: UN Comtrade Database

India being a net importer of all the above categories of merchandise (see table 7) , it would be prudent to analyse if these products/sectors, have a relative importance, in terms of value, in India's imports (relative to the importance in world imports), and which enjoy a similar relative importance in India's exports. The first is known as Revealed Comparative Import Inclination (RCII) and the latter Revealed Comparative Advantage (RCA). RCA index for a commodity (or commodity group) exported from India is higher than 1 if its importance is more in India's exports than in world exports, and vice versa. Similarly, RCII index for India's imports for a commodity (or commodity group) imported to India is higher than 1 if its importance is more in India's imports than in world imports, and vice versa. **Annexure-C** gives the detailed formulae of the trade indicators used in this analysis.

Table 7: India's Total Export and Import Value of Commodities to the World from 2015 to 2019

Commodity Code	Commodity Description	Total Export Value (Bn US \$), 2015-2019	Total Import Value (Bn US \$), 2015-2019	Category
HS-28	Inorganic chemicals; organic and inorganic compounds of precious metals; of rare earth metals, of radio-active elements and of isotopes	7.96	29.56	Net Importer
HS-29	Organic chemicals	72.13	91.77	Net Importer
HS-38	Chemical products n.e.c.	19.45	25.38	Net Importer
HS-7106	Silver (including silver plated with gold or platinum); unwrought or in semi-manufactured forms, or in powder form	0.05	15.87	Net Importer
HS-7108	Gold (including gold plated with platinum) unwrought or in semi-manufactured forms, or in powder form	12.02	157.03	Net Importer
HS-72	Iron and steel	44.18	54.18	Net Importer
HS-73	Iron or steel articles	33.32	21.02	Net Exporter

HS-85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers, parts and accessories of such articles	51.73	223.07	Net Importer
HS-8517	Telephone sets, including telephones for cellular networks or for other wireless networks; other apparatus for the transmission or reception of voice, images or other data (including wired/wireless networks), excluding items of 8443, 8525, 8527, or 8528	9.15	83.39	Net Importer
HS-86	Railway, tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds	1.43	2.45	Net Importer

Hence, those sectors where customs intervention have been announced – an analysis at ITC-HS two-digit code level is done. If both RCA and RCII for India > 1 for such sectors, then it means India's exports and imports of that sector are to an extent more than overall world trends warrant. Hence these are the sectors which are expected to see substantial imports as well as exports for India. Tables 8 and 9 shows values of RCA and RCII for the relevant commodity codes for Indian exports and imports respectively for 2015 to 2019.

Table 8: RCA of Products for India with Customs Intervention in Budget 2020-21

Commodity Code (ITC-HS Chapter)	2015	2016	2017	2018	2019
HS-28	0.7268	0.8036	0.8751	0.9988	0.9165
HS-29	1.8685	2.0232	2.1130	2.4887	2.6259
HS-38	1.0887	1.1301	1.0877	1.2198	1.4275
HS-71	3.3668	3.5445	3.5689	3.4503	3.1741
HS-72	1.2590	1.3754	1.9762	1.5093	1.6190
HS-73	1.4369	1.3849	1.3943	1.3175	1.3735
HS-85	0.2071	0.2009	0.1993	0.2569	0.3126
HS-86	0.1366	0.3436	0.4691	0.7216	0.5290

Source: UN Comtrade Database

Table 9: RCII for Targeted Products for India with Customs Intervention in Budget 2020-21

Commodity Code (ITC-HS Chapter)	2015	2016	2017	2018	2019
HS-28	1.7941	1.9961	1.8764	2.0097	2.0344
HS-29	1.6165	1.7263	1.6511	1.8295	1.7577
HS-38	0.9995	1.1163	1.1115	1.0819	1.0466
HS-71	4.1074	3.2464	4.6986	3.9514	3.4455
HS-72	1.5208	1.3066	1.1244	1.1047	1.2030
HS-73	0.5854	0.6045	0.5551	0.6187	0.6471
HS-85	0.6082	0.6688	0.6837	0.6600	0.6699
HS-86	0.7423	0.7147	0.6039	0.9022	0.6447

Source: UN Comtrade Database

RCII is exceeding 1 for ITC-HS chapters 28,29, 71 and 72 (refer table 8).From table, it is seen that RCA >1 for ITC HS Codes 29,28,71, 72 and 73, implying these sectors indicate greater export promise for India vis-à-vis the world. These ITC-HS chapters are

29: Organic Chemicals

28: Inorganic chemicals, precious metal compound, isotopes

71: Pearls, precious stones, metals, coins, etc

72: Iron and steel

73: Articles of iron or steel

Thus to boost these sectoral exports, it may require reducing customs duties on imports of these products or raw materials that add into the manufacture of these products with higher export potential. This is under the assumption that these commodities once imported, with substantial value addition are then exported back with higher price (perhaps with higher degree of sectoral Intra-Industry Trade). The Budget 2020-21 seems to have echoed the above logic by

- Reducing customs duty on Naptha and other chemical (ITC-HS Chapter 28 and 29) inputs to correct inversion which may boost imports of chemicals (used as raw materials) and subsequently exports of finished products.

This may also substitute imports of finished chemical products through “Make in India”. Carbon Black, Bis-phenol A, Epichlorohydrin custom duties were increased for higher domestic value addition and more exports. There exists a fair degree of intra-industry trade (refer table 9: Grubel-Lloyd Index above 0.5) for ITC-HS Chapter 29 (“Organic Chemicals) for India and the largest trading countries of the world. Thus, India, may be both importing and exporting organic chemicals and if this is so, there is higher interdependence and trade interrelationship between imports and exports of organic chemicals and a change in customs-duty may have greater elasticity of exports.

- Reducing customs duty on Iron and Steel (ITC-HS Chapters 72 and 73) thus boosting their imports by MSMEs in the wake of sharp rise in iron and steel prices.

This policy decision would help align the iron and steel industry with the Hon’ble Prime Minister’s clarion call for self-reliant or “Atmanirbhar” Bharat and give a fillip to MSMEs. MSMEs contribute 30% or one-third to India’s GDP, about 48% of exports and has high employment potential.

However, export value of Gold and Silver (under ITC-HS Chapter 71) has not picked up in the last few years despite disproportionately higher imports. Reduction of custom duty on gold and silver may boost domestic demand on precious metals’ consumption but has bleak potential for boosting value added exports as can be made out from the last five years’ trend

(refer to the export and import values in Billion US \$ from years 2015 to 2019, for HS-7106 and HS-7108, in Tables 3 and 5 respectively).

Table 10: Intra-Industry Trade(IIT) between India and Top Importers in 2019

Countries	ITC-HS Chapters				
	28	29	71	72	73
USA	0.453	0.961	0.829	0.526	0.250
China	0.233	0.549	0.661	0.622	0.092
Germany	0.386	0.745	0.858	0.699	0.835

Source: UN Comtrade Database

Intra-industry trade usually takes place in the countries that have similar social structure and economical. Meanwhile, the key factors that affecting intra-industry trade are product differentiation, human capital intensity and economies of scale (Hu & Ma, 1999). The sources of gains from intra-industry trade between similar economies—namely, the learning that comes from a high degree of specialization and splitting up the value chain and from economies of scale—are not contradictory to the earlier theory of comparative advantage. Instead, they help to broaden the concept. Trade in intermediate goods reinforces the interdependence between countries’ resources and factors to make the best possible utilisation of inputs to enhance production and supply value chains.

Table 10 above shows that for the ITC HS Chapters 29,71 and 72 i.e. organic chemicals, gems and jewellery and iron and steel, the IIT value is fairly high (shaded cells in Table 10) indicating high degree of intra-industry trade and potential for more efficient allocation of resources in the supply chain. Thus, it would be interesting to study how tinkering the quantum of imports by India through customs duties’ changes in these industries, may lead to interactions with value-added in exports.

The low values of Hirschman Index or Export Concentration Indices from 2015 to 2019 as shown in Table 11 for India shows that India’s export basket is not concentrated in a few commodities. The index value is used to determine export market competitiveness. Thus, India, albeit, exposed to lower levels of world trade and global industry concentration risk, does not have a much specialised export basket with “accumulation” in few product types and the Indian export market is fairly competitive. The closer the export market is to a monopoly with dominance in one or few products, the higher the market's concentration (and the lower its competition). If there were several entities or firms/exporters competing, each would have low market share, and the HHI would be close to zero, indicating near perfect competition.

Table 11: Hirshman-Herfindahl Index (HHI) between India and the World from 2015 to 2019

Year	Hirschman Index (HI)
2015	0.1324
2016	0.1344
2017	0.1339
2018	0.1489
2019	0.1445

Source: UN Comtrade Database

III. The Way Forward

The above analysis has been attempted to examine the Budget 2020-21 proposals in the light of few trade indices. With The Trade Complimentary Index (TCI) between Indian and the World in 2019 was 0.39, there is a lot of potential to improve bilateral trade performance between countries through trade agreements and treaties. Only if the exports of one country match well with the imports of the other, and vice versa, and the trade complementarity is high between two countries, it is beneficial to enter into a trade agreement. The Budget 2020-21 does a prudent job in rationalising the Customs Duties structures, keeping the sectoral needs in cognizance, balancing the objectives of giving boost to the critical MSME sector and boosting export value addition with a thrust on “Atmanirbhar” and “Make in India”. The ITC HS Chapters 29,28,71, 72 and 73 with greater export promise for India vis-à-vis the world encompassing Chemicals, Pearls, precious stones, metals, coins and Iron and steel sector have been suitably reviewed in the Budget through changes in import tariff structure. Doing away with unwarranted exemptions on Customs Duties and easing of procedures and compliance as well as the Turant Customs initiative are expected to give a fillip to the much-needed value-added export trades as well as facilitation for domestic manufacturing and judicious import-substitution.

Customs duty rate changes

1. Changes in basic customs duty for creating level playing field for the benefit of farmer, MSME and other domestic manufacturers [with effect from 02.02.2021]:

S.No.	Category	Specific items	Rate of Duty	
			From	To
1.	Agricultural products and fishery sector	Cotton	Nil	5%*
		Cotton waste	Nil	10%
		Raw Silk (not thrown) and silk yarn /yarn spun from silk waste	10%	15%
		Denatured ethyl alcohol (ethanol) for manufacture of excisable goods	2.5%	5%
		Prawn Feed	5%	15%
		Fish feed in pellet form	5%	15%
		Flours, meals and pellets of fish, crustaceans, molluscs or other aquatic invertebrates	5%	15%
		Maize Bran	Nil	15%
		De-oiled rice bran cake	Nil	15%
2.	Chemicals	Carbon Black	5%	7.5%
		Bis-phenol A	Nil	7.5%
		Epichlorohydrin	2.5%	7.5%
3.	Plastics	Builder's ware of plastic, not elsewhere specified or included	10%	15%
		Polycarbonates	5%	7.5%
4.	Leather	Wet blue chrome tanned leather, crust leather, finished leather of all kinds, including their splits and slides	Nil	10%
5.	Gems and Jewellery	Cut and Polished Cubic Zirconia	7.5%	15%
		Synthetic Cut and Polished Stones	7.5%	15%
6.	Capital Goods and Machinery	Tunnel Boring Machines	Nil	7.5%
		Parts and components for manufacture of Tunnel Boring Machines	Nil	2.5%
7.	Auto Sector	Specified auto parts like ignition wiring sets, safety glass, parts of signaling equipment, etc.	7.5%/10%	15%
8.	Metal products	Screws, Nuts, etc.	10%	15%

* Also, to attract Agriculture Infrastructure and development Cess at the rate of 5%, refer to Part C on page 14

2. Changes in Customs duty to promote value addition in the Electronics Sector [with effect from 2.2.2021, unless specified otherwise].

S.No.	Description	From	To
1.	Inputs, parts or sub-parts for manufacture of specified parts of mobile phones, including: (1) Printed Circuit Board Assembly (PCBA) (2) Camera module (3) Connectors [To apply with effect from 01.04.2021]	Nil Nil Nil	2.5% 2.5% 2.5%
2.	Printed Circuit Board Assembly [PCBA] and Moulded Plastic, for manufacture of charger or adapter	10%	15%
3.	Inputs and parts [other than PCBA and moulded plastic] of mobile charger	Nil	10%
4.	Inputs, Parts and Sub-parts [other than PCBA and Li-ion Cell] for manufacture of Lithium-ion battery and battery pack [w.e.f. 01.04.2021]	Nil	2.5%
5.	Compressor of Refrigerator/Air Conditioner	12.5%	15%
6.	Specified insulated wires and cables	7.5%	10%
7.	Specific parts of transformer such as Bobbins, brackets, wires, etc.	Nil	Applicable Rate
8.	Inputs and parts of LED lights or fixtures including LED Lamps	5%	10%
9.	Solar Inverters	5%	20%
10.	Solar lanterns or solar lamps	5%	15%

3. Changes in Customs duty raw materials and inputs used by Domestic Manufacturers for reducing cost of inputs and correction of inverted duty structure:

S. No.	Inputs/Raw materials (for Sector)	Specific Items	Rate of duty	
			From	To
1.	Petrochemical industry	Naphtha	4%	2.5%
2.	Textile industry	Caprolactam	7.5%	5%
		Nylon Chips	7.5%	5%
		Nylon fibre and yarn	7.5%	5%
3.	Ferrous and Non-Ferrous Metals	Iron and Steel melting scrap, including stainless steel scrap [upto 31.3.2022]	2.5%	Nil
		Primary/Semi-finished products of non-alloy steel	10%	7.5%
		Flat products of non-alloy and alloy-steel	10%/12.5%	7.5%
		Long products of non-alloy, stainless and alloy steel	10%	7.5%
		Raw materials used in manufacture of CRGO Steel	2.5%	Nil
		Copper Scrap	5%	2.5%

6.	Aviation Sector	Components or parts, including engines, for manufacture of aircrafts by Public Sector Units of Ministry of Defence	2.5%	Nil
7.	Precious Metals	Gold and silver*	12.5%	7.5%*
		Gold dore bar*	11.85%	6.9%*
		Silver dore bar*	11%	6.1%*
		Platinum, Pallidum, etc.	12.5%	10%
		Gold/silver findings	20%	10%
		Waste & Scrap of Precious Metals	12.5%	10%
		Spent Catalyst or ash containing precious metals	11.85%	9.2%
		Precious Metal Coins	12.5%	10%
8	Animal Husbandry	Feed additives or pre-mixes	20%	15%

* Also, to attract Agriculture Infrastructure and development Cess at the rate of 2.5%, refer to Part C on page 14

4. BCD rates has been reduced on following items with imposition of Agriculture Infrastructure and Development Cess on these so that overall consumer does not bear additional burden on most of the items. The revised rate of basic customs duty on such items shall be as follows:

Item	Revised basic customs duty rate*
Apple	15%
Alcoholic beverages falling in Chapter 22	50%
Crude edible oil (Palm, Soyabean, sunflower)	15%
Coal, lignite and peat	1%
Specified fertilizers (Urea, MoP, DAP)	Nil
Ammonium nitrate	2.5%
Peas, kabulichana, Bengal gram, lentils	10%

* refer to part C on page 14 for Agriculture Infrastructure and Development Cess rates on these items

4. Consequent to imposition of Agriculture Infrastructure and Development Cess (AIDC) on petrol and diesel, the Basic excise duty (BED) and Special Additional Excise Duty (SAED) rates have been reduced on them so that overall consumer does not bear any additional burden. Consequently, unbranded petrol and diesel will attract basic excise duty of Rs 1.4, and Rs 1.8 per litre respectively. The SAED on unbranded petrol and diesel shall be Rs 11 and Rs 8 per litre respectively. Similar changes have also been made for branded petrol and diesel. Refer to part C for Agriculture Infrastructure and Development Cess rates on these items.

Part C. Imposition of Agriculture Infrastructure and Development Cess on specified goods [w.e.f. 2.2.2021]

An Agriculture Infrastructure and Development Cess has been proposed on specified goods, as below:

(A) On customs side

Items	Proposed cess (Customs)
Gold, Silver and dore bars	2.5%
Alcoholic beverages (falling under chapter 22)	100%
Crude palm oil	17.5%
Crude soyabean and sunflower oil	20%
Apples	35%
Coal, lignite and peat	1.5%
Specified fertilizers (Urea etc)	5%
Peas	40%
Kabuli Chana	30%
Bengal Gram/Chick peas	50%
Lentil (Mosur)	20%
Cotton (not carded or combed)	5%

(B) On excise side:

An agriculture Infrastructure and Development Cess (AIDC) of Rs. 2.5 per litre has been imposed on petrol and Rs. 4 per litre on diesel. For other duties and cess, as revised, consequent to imposition of AIDC) on these items refer to part B. Overall there would be no additional burden on the consumer.

Rationalization of exemptions

S. No.	Category of goods	Specific items	From	To
1.	Minerals	Natural borates and concentrates thereof	Nil/5%	2.5%
2.	Chemicals	Methyl Diphenylsocyanate (MDI) for the manufacture of spandex yarn	Nil	7.5%
3.	Items allowed to be imported duty free based on export performance in handicrafts, garments and leather	Certain duty-free imports of items like motif, glue, veneer, polish, hooks, rivets, button, Velcro, chaton, badges, beads, sewing thread etc, on the basis of export made in the previous financial year, are allowed to handicraft, garments and leather exporters. An end date of 31.3.2021 is being provided for these concessions.	Nil	Applicable rate

Trade Indicators

1. Revealed Comparative Advantage Index (RCA): RCA for a commodity exported from a country means the importance of this commodity in the export trade of the country in comparison with the importance of the commodity in world exports. Mathematically,

$$RCA_{ij} = (x_{ij}/X_{it}) / (x_{wj}/X_{wt})$$

where x_{ij} = country i 's exports of commodity j

X_{it} = country i 's total exports

x_{wj} = world exports of commodity j

X_{wt} = total world exports.

When $RCA_{ij} > 1$, i.e. when j 's weight in i 's exports (x_{ij}/X_{it}) is more than j 's weight in world exports (x_{wj}/X_{wt}), country i is said to have a revealed comparative advantage in commodity j . There is a revealed comparative disadvantage if $RCA_{ij} < 1$. When $RCA_{ij} = 1$, there is neither comparative advantage nor disadvantage.

By studying the RCA for a commodity exported from a country over time, it can be seen whether the country in question is gaining in comparative advantage regarding a particular commodity. If RCA is falling, the reasons require investigation. (x_{ij}/X_{it}) may have risen less or fallen more than proportionately than (x_{wj}/X_{wt}).

2. One way of checking the reasons for a fall in RCA for a particular commodity is seeing which markets are responsible for this fall. This can be seen from another, slightly different, indicator called Export Specialization Index (ESI).

$$ESI = (x_{ij}/X_{it}) / (m_{kj}/M_{kt}), \text{ where}$$

m_{kj} = import of commodity j to market k

M_{kt} = world imports of commodity k .

(m_{kj}/M_{kt}) gives the weight of j in market k . So, if RCA_{ij} is seen to fall, then it can be found out for which markets ESI has fallen. Special attention may then be given to those markets regarding the commodity in question.

3. Like RCA, the revealed comparative import intensity (RCII) can also be measured.

$$RCII = (m_{ij}/M_{it}) / (m_{wj}/M_{wt})$$

where m_{ij} = country i 's imports of commodity j

M_{it} = country i 's total imports

m_{wj} = world imports of commodity j

Mwt= total world imports.

This gives an idea whether the proportion of imports of any commodity is more than expected, in terms of the share of that commodity in world imports.

4. Bilateral trade between countries is an important area of trade policy in that bilateral trade agreements are signed to increase trade. However, some points require to be examined before entering into these agreements. Firstly, it is necessary to see whether there is trade complementarity between the two countries. That is, whether the exports of one country match with the imports of the other, and vice versa. Naturally, when trade complementarity is high between two countries, it is beneficial to enter into a trade agreement. If a partner country does not import what India generally exports, there is little point in entering into a trade agreement with that country. The Trade Complementarity Index (TCI) is given as follows:

$$TCI = 1 - \sum (|m_{ik} - x_{ij}|/2), \text{ where}$$

m_{ik} = share of commodity i in the imports of market k

x_{ij} = share of commodity i in the exports of country j .

It is evident that TCI can have values between 0 and 1. When these shares, are m_{ik} and x_{ij} are close to each other, (i.e. when trade complementarity increases) TCI is close to 1. As their difference increases, TCI falls.

TCIW = TCI between a country and the World.

RTCI (Relative Trade Complementarity Index) between country k and country j = (TCI between country k and country j) / (TCI between country k and the world)

RTCI gives a measure of the complementarity between two countries as compared to the complementarity between the first country and the world.

5. But another fact may be checked while proceeding to enter into a trade agreement. The trade between the two countries may already be quite high. This can be measured by the Export Intensity Index (EII).

$$EII = (x_{ij}/X_{it})/(x_{wj}/X_{wt})$$

where x_{ij} = country i 's exports to country j

X_{it} = country i 's exports to the world

x_{wj} = world exports to country j

X_{wt} = total world exports.

This essentially measures the relative importance of country j in country i 's export trade, in comparison with country j 's importance as world export destination. $EII < 1$ or > 1 implies less than or more than expected bilateral trade, respectively. If EII is already high, there is little

scope of further increasing bilateral trade between i and j. But if it is low, and if TCI is high, bilateral trade can very well be increased through trade agreements.

6. A related indicator is the Export Similarity Index (XSI), which helps us identify a country's competitors.

$$XSI = \sum [\min (X_{ij}, X_{ik}) * 100]$$

where X_{ij} = share of commodity i in exports of country j

X_{ik} = share of commodity i in exports of country k

XSI can vary between 0 and 100. It will be seen that when $X_{ij} = X_{ik}$ for all i's, $XSI = 100$, which means complete export similarity between countries j and k. As X_{ij} and X_{ik} start to differ, XSI falls. Countries exporting the same commodities are competitors in the world market, and export strategies, taking in to account such competition, have to be designed accordingly.

7. It is necessary to know whether the exports of a country are concentrated in a few products. A high concentration, while enabling a country to reap the benefits of specialization and economies of scale, also exposes a country to the risks arising from the vicissitudes of global trade. The Hirschman Index (HI), used by UNCTAD, is a handy measure for monitoring export concentration.

$$HI = \sqrt{[\sum S_i^2 (x_i/X_t)]}$$

where x_i is the country's exports of commodity i

X_t is the country's total exports.

HI ranges from $(1/n)$ to 1. The higher the value of HI, the higher the concentration of exports.

8. Intraindustry trade is of importance as it can increase and expand markets. The standard indicator is the Index of Intraindustry Trade (IIT).

$$IIT_{jk} = 1 - [\sum | X_{ijk} - M_{ijk} | / (X_{ijk} + M_{ijk})]$$

where X_{ijk} = exports of products of industry i from country j to country k

M_{ijk} = imports of products of industry i from country k to country j.

IIT can take values from 1 (extremely high intra-industry trade, exports equalling imports) to 0 (no interindustry trade at all).

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