Information Technology Agreement-II - Does India need it?

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IN less than a period of two years, the WTO is all set to witness finalization of another major agreement within the Member countries. After the Trade Facilitation Agreement which was inked in December 2013 and adopted on 21-11-2014, the expansion of Information Technology Agreement (ITA) is in sight. The ITA-II, as it is popularly known,would include about 200 more products on which the participant countries would gradually eliminate import duties. 54 Member countries which are presently participating in the new Agreement have on 24-7-2015 confirmed the tentative accord reached between them earlier. The Agreement is expected to be signed most probably in the December 2015 Ministerial meeting of the WTO Members in Nairobi.

India, though part of the original ITA which was concluded way back in 1997 and has eliminated import duties on number of products since then,has been hesitant to become Member of the expansion club. It has always voiced its concerns against such expansion, right from 1998 when the idea of expansion was originally mooted. Let us analyze some pros and cons in this regard.

Here, it may be noted that the latest expansion would also include next generation semi-conductors, medical devices covering equipments like MRI machines and CT scanners, GPS technology devices, printed matter/cards to download software and games, printer ink cartridges, software media such as solid state drives, video game consoles and certain consumer electronic goods.

Impact on "Make in India"

A cursory look at the proposed expansion list tells us that India is a major consumer of these goods.So, reduction in import duties of such items would reduce the cost of these items to a great extent (of course, this will happen if India decides to be part of ITA-II). Import of parts and components will become cheaper. This would lower our production cost and may boost our exports also by making our products more competitive in the international markets. Here, it may be noted that major exporters, the world over, are also major importers, taking benefit of value chains spread across the world, and any reduction in the cost of components will definitely have its effect on the final cost of the product.

So, will there be a paradigm shift in the manufacturing sector in India if it joins the new group? The answer is NO. Majority of these items are final products consumable as such and hence if tariffs are cut, India will see surge in imports which may dent the nascent domestic industry in this sector. For 'Make in India' to succeed, India needs critical parts and technology. Import of fully deliverable consumer goods should not be the priority here. Since the idea is to promote production in India, there is a strong case for encouragement of domestic procurement also, which will also reduce our trade deficit.

Reduction or elimination of import duties is not the only measure to encourage MNCs to come to India and set up their manufacturing units in India, There are other ways to ease the working atmosphere here and promote exports from India.For example,efforts should be made to eliminate various non-tariff barriers, unending declarations, forms and guarantees.

Further, India already allows duty free import of input sand capital goods under various Export Promotion Schemes as promulgated under the Foreign Trade Policy 2015-20. Exporters can take advantage from the ever reliable Advance authorization scheme, EPCG scheme or even the recently announced MEIS, in addition to other benefits.

Besides, even if there is a requirement of reduction or elimination of import duties, India can always do that by way of a simple Customs notification. It need not bind itself before the WTO and subject its tariff to scrutiny by other Member countries?

No case for tariff reduction anyway

Loss of revenue, as far as import duties are concerned, is another major factor which weighs against any tariff reduction, particularly on consumer items. So, unless substantial amount of foreign exchange is expected from export of goods manufactured out of these products, there is no case for elimination of import duties.

Here it may be noted that since the tariff reduction, as agreed between this new group of countries, will be implemented by them on MFN basis, India can reap the benefit of reduced tariff control in respect of export of these products, if any, from India. Hence there is no question of only reciprocal tariff reduction, as is omnipresent in all Free Trade Agreements.

Further, we see that there are countries like Brazil, Argentina and Mexico which are not part of the original ITA but are nevertheless substantial players in both import and export of information technology products. On the other hand, tariff elimination has not helped India on the expected lines. Though part of India's success story in the software sector can be attributed to the cut in import duties on computers,the hardware industry has not grown to that extent.

Finally, India still needs to protect its domestic industry from the aggressive or competitive pricing of its neighbors and other Asian exporters of IT products. This Information Technology Agreement and its expansion, as we understand is basically to help exporters of these products to gain foothold in the markets of the consuming countries. Here, it is not out of context to mention sub-title of the news item as carried in WTO's official website which precisely conveys the message. It reads "
WTO members representing major exporters of information technology products agreed today (24 July) to eliminate tariffs on more than 200 such products.
" So it is the major "exporters" who have agreed to cut import tariffs. Were stakes of the importers taken into consideration?

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