

# India's Tariffs and Implications for Indo-US Trade Prospects

Amitendu Palit and Deeparghya Mukherjee

## Executive Summary

*The US President Donald Trump has repeatedly alluded to India as a 'tariff king' and described its high tariffs as unacceptable. The description contributes to the trade friction building up between India and the US, particularly in the last few months, with the US repealing its preferential market access GSP (Generalised System of Preferences) benefits to India in early June 2019, with India imposing fresh tariffs on several US imports, such as almonds, apples and walnuts soon after.*

*This paper compares India's tariffs with those of some of the world's other large emerging market developing countries to ascertain if Indian tariffs are indeed among the highest. The countries include Russia, Brazil, Mexico, China, Indonesia and South Africa. Along with India, these countries are members of G20 – the world's most influential grouping of major economies – and are large emerging market economies. Some of these, such as Brazil, Indonesia and South Africa, continue to be beneficiaries of US GSP, while Mexico is part of the USMCA (United States-Mexico-Canada Agreement) along with Canada. US perceptions regarding Indian tariffs are likely to be determined in relation to those in these economies, apart from China and Russia.*

*The paper notes Indian tariffs to be particularly high among large emerging market economies, in terms of bound rates, applied rates, incidence of non-binding tariff lines and binding overhang (the difference between bound and applied rates). While lower on bound and applied rates, Brazil, Indonesia, South Africa and Mexico are also noted to be economies, which, along with India, present considerable policy uncertainty given the flexibilities they have in raising tariffs.*

## Introduction

India's tariffs continue to remain an issue in the further flourishing of bilateral trade ties with the US. This is notwithstanding India-US trade having experienced a seven-fold increase from 2001 to reach S\$194 billion in 2018. The US is India's largest export market for non-agricultural products, as of 2017, accounting for S\$62 billion of India's exports.<sup>1</sup> Such exports have been facilitated by the preferential access offered by US GSP, which, after its withdrawal, is to affect more than S\$8 billion of Indian exports to the US.<sup>2</sup> Following the withdrawal of GSP, there are concerns over whether the US might resort to more unilateral trade actions against India, given its unhappiness over Indian tariffs.

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<sup>1</sup> The WTO country tariff profiles.

<sup>2</sup> See "India raises US tariffs after losing preferential trade access" by S. Findlay in Financial Times 15<sup>th</sup> June 2019 (<https://www.ft.com/content/5c497010-8f4b-11e9-b7ea-60e35ef678d2>)

## Tariffs – Rates and Structure

Tariffs, for the World Trade Organisation (WTO) members, are judged on the basis of ‘bound’ and ‘applied’ rates. Bound rates are the upper ceilings members commit to, while applied rates are those charged on imports, with the applied rates being usually lower than the bound rates. On both the bound and applied rates, Indian tariffs are significantly higher than the other emerging market economies being considered here (Table 1). From the US’ perspective, compared with China and Mexico, which are its major trade partners, India’s simple average of final bound tariffs at 51 per cent, is more than 40 per cent higher than Mexico’s average of 36.2 per cent; the difference is far more compared with China’s 10 per cent and South Africa’s 19.2 per cent. The differences for the Most Favoured Nation (MFN) rates are also of similar nature with India’s average applied rate of 17.1 per cent, more than double that of Mexico, Russia, Indonesia and South Africa, and significantly higher than China.

**Table 1: Summary of tariff rates of selected countries**

Tariff	India	Russia	Brazil	Mexico	Indonesia	China	South Africa
Simple average final bound	50.8	7.6	31.4	36.2	37.1	10.0	19.2
Simple average MFN applied	17.1	6.8	13.4	7.0	8.1	9.8	7.7
Trade weighted average	11.7	5.6	10.0	4.4	5.4	4.8	6.5

*Source: WTO Tariff Profiles. Note: Bound and Applied tariffs are for 2018, trade-weighted averages are for 2017.*

High bound tariff rates for a country convey to its trade partners the unavoidable impression that the former can raise tariffs by substantial degree, if it wishes to. Such impressions prevail even if the applied rates are lower than bound rates. India, clearly, is a subject of such impressions. This prevails across a wide range of industries, notwithstanding applied tariffs being lower than the bound rates. The perception is not helped by the fact that India’s applied rates are relatively high among the major emerging markets. Oilseeds, fats and oils, tea and coffee, beverages and tobacco, sugars and confectionary, fish and fish products, are specifically the sectors where India’s tariffs are noticeably higher than most of its other emerging market counterparts (Appendix 1). Much of India’s overall high tariffs are a result of it having such tariffs in agriculture and food product industries, where not only are its bound tariffs higher than 100 per cent on average, but its applied rates also, in many cases, are higher than the maximum bound rates of other countries (Appendix 1). In non-agricultural products, however, India’s tariffs are relatively lower and, by and large, comparable to those of Brazil, Mexico and Indonesia.

Is India’s ‘tariff king’ label confined to agriculture, then? Not quite. Notwithstanding overall lower bound and applied rates in non-agricultural products, there are flexibilities that enable India to maintain high applied rates in the latter too. These include the number of tariff lines that are ‘non-binding’ for India compared with other countries. India has significantly higher tariff lines, which are ‘non-binding’ i.e. without the obligation to limit tariffs to maximum bound rates for the particular industry. Russia, China, Brazil and Mexico, for example, have

declared 100 per cent binding for all non-agriculture industries (Appendix 2), while Indonesia and South Africa have similarly bound tariffs for most non-agriculture tariff lines. But even then, India has much more tariff lines that are ‘non-binding’ than South Africa and Indonesia (Appendix 2) enabling it to impose applied tariffs higher than bound rates.

The difference between ‘bound’ and ‘applied’ tariffs, referred to as ‘binding overhang’ has implications for both tariff perceptions and negotiations. A higher difference means more room for national authorities to push up tariffs from their present applied rates, adding to uncertainty and unpredictability about the country’s trade policies. The binding overhang is noticed to be significant for not just India, but also Brazil, Mexico, Indonesia and South Africa for several items (Appendix 2). India’s overhang in non-agricultural products is amongst the highest and comparable with Mexico and Indonesia. In this respect, the tariff structures of all these countries are likely to generate policy uncertainty from partner country perspectives. In contrast, Russia and China have almost no overhang. On tariffs, therefore, both countries present much greater policy certainty.

## Implications

While ‘tariff king’ might be a loose and somewhat frivolous characterisation, there is no denying that high bound rates, relatively higher applied rates, greater incidence of non-binding tariff lines and high binding overhang, are features that point to India being the most protectionist economy among those studied in this paper. It is also important to note that India’s tariff protectionism is not just confined to agricultural products. While it is much more obvious in agriculture, India can afford to be considerably protective even in non-agricultural, i.e. manufacturing products with the room it has in raising tariffs. However, it is similar to some other emerging market economies, notably Brazil, Indonesia, South Africa and Mexico, in being an economy that can be described as one with considerable flexibility for tariff escalation; the scope for such escalation might be relatively more for India in most instances.

It is hardly surprising therefore that the US tone on India’s tariffs has been notably harsh. Compared with most major emerging market trade partners of the US, India does impose much greater tariffs on American imports. This might well have been instrumental in the US’ unhappiness over a lack of reciprocal market access for its products in India leading to the eventual termination of GSP benefits for Indian products. The issue of constrained market access for American products arising from high Indian tariffs would particularly influence US perceptions on India, if looked at from the point of view of trade deficit; India has a trade surplus of S\$33.1 billion with the US as of 2018 with a goods trade surplus of S\$29.2 billion and services trade surplus of S\$4.1 billion.<sup>3</sup> This is significant given that India runs an overall trade deficit of S\$89 billion.<sup>4</sup> The American market has been important for Indian exports, particularly as a destination that generates a rare trade surplus, and concomitant foreign exchange earnings for India. The withdrawal of the GSP and a scaling up of the tariff war might eventually be counterproductive for India’s larger trade interests. This is more so given that the US appears determined to curtail the flexibilities that large emerging market

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<sup>3</sup> See “US-India bilateral trade and investment” (<https://ustr.gov/countries-regions/south-central-asia/india>)

<sup>4</sup> See “India’s Foreign Trade: March 2019” <http://pib.nic.in/newsite/PrintRelease.aspx?relid=189768>

economies like India enjoy within the multilateral rules-based framework of the WTO.<sup>5</sup> Under such circumstances, capitalizing the benefits of deeper engagement with the US through trade, requires correcting some of the adverse perceptions affecting bilateral trade relations. Liberalizing some of the current high tariffs could just be so.

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Dr Amitendu Palit is a Senior Research Fellow and Research Lead (Trade and Economic Policy) at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He can be contacted at [isasap@nus.edu.sg](mailto:isasap@nus.edu.sg). Dr Deeparghya Mukherjee is an Assistant Professor of Economics at the Indian Institute of Management Nagpur, India and a Visiting Research Fellow at ISAS-NUS. He can be contacted at [deeparghya@iimnagpur.ac.in](mailto:deeparghya@iimnagpur.ac.in). The author(s) bear full responsibility for the facts cited and opinions expressed in this paper.

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<sup>5</sup> 'Memorandum on Reforming Developing-Country Status in the World Trade Organization', Presidential Memoranda, 26 July 2019; <https://www.whitehouse.gov/presidential-actions/memorandum-reforming-developing-country-status-world-trade-organization/>

**Appendix 1: Average final bound (B) and Applied (A) tariffs for selected products by some major economies**

Product groups	India		Russia		Brazil		Mexico		Indonesia		China		South Africa	
	B	A	B	A	B	A	B	A	B	A	B	A	B	A
Animal products	104.5	32.5	23.2	25.8	37.8	8.3	62.3	16.7	43.7	7.1	14.9	14.2	37.4	11.1
Dairy products	63.8	34.8	15.4	15.2	48.8	18.3	63.0	23.3	74.0	5.5	12.2	12.3	92.3	9.2
Fruit, vegetables, plants	101.1	32.4	8.4	8.0	34.1	9.7	37.4	16.0	45.6	5.7	14.8	14.8	28.0	9.1
Coffee, tea	133.1	56.3	6.4	5.4	34.1	13.3	64.6	20.4	45.3	13.2	14.9	14.9	65.4	7.2
Cereals & preparations	114.1	37.1	10.1	9.5	42.9	10.7	46.3	9.5	44.8	7.4	23.7	23.0	45.1	9.1
Oilseeds, fats & oils	165.1	54.1	7.1	6.5	34.6	7.9	44.6	7.2	39.9	4.4	11.1	10.9	47.0	7.6
Sugars and confectionery	126.2	51.5	13.1	11.5	34.4	16.5	119.4	31.0	58.3	7.2	27.4	28.7	75.2	11.6
Beverages & tobacco	120.4	74.7	23.3	22.4	37.7	17.3	42.5	27.8	81.3	45.8	23.2	23.7	89.0	20.5
Cotton	110.0	26.0	0.0	0.0	55.0	6.4	39.4	0.0	37.4	4.0	22.0	18.0	60.0	4.6
Other agricultural products	105.6	29.0	5.3	4.7	28.8	7.7	28.1	6.6	40.7	4.1	12.1	11.8	12.0	2.2
Fish & fish products	135.7	30.0	7.8	6.9	33.6	10.3	34.9	14.0	40.0	6.3	11.0	10.9	18.5	6.4
Minerals & metals	38.3	11.0	8.0	7.2	32.9	10.1	34.3	3.6	38.8	7.1	8.0	7.8	11.7	4.9
Petroleum	-	9.2	5.0	4.4	35.0	0.1	38.0	0.0	40.0	0.2	5.0	5.3	-	0.7
Chemicals	39.6	10.1	5.2	4.6	21.1	8.1	35.2	2.3	37.9	5.3	6.7	6.7	12.4	2.1
Wood, paper, etc.	36.4	10.0	8.0	8.0	28.4	10.4	34.2	4.5	39.4	5.0	5.0	4.1	11.7	6.1
Textiles	27.1	20.7	7.8	7.5	34.8	23.3	35.0	9.8	26.4	11.5	9.8	9.6	22.2	17.3
Clothing	37.7	20.5	8.9	7.8	35.0	35.0	35.1	21.3	35.0	23.9	16.1	16.0	45.0	41.0
Leather, footwear, etc.	34.6	12.1	6.2	5.7	34.6	15.8	34.7	6.1	39.7	9.9	13.7	13.2	20.7	13.3
Non-electrical machinery	28.6	7.8	5.8	2.6	32.4	12.8	35.1	2.8	35.0	5.4	8.4	8.1	9.2	1.4
Electrical machinery	27.8	8.8	6.1	4.4	31.9	13.9	34.4	3.5	30.5	6.0	8.9	8.4	17.3	4.5
Transport equipment	35.7	31.1	8.9	8.2	33.1	19.0	37.0	8.5	38.8	13.5	11.4	12.3	18.4	6.6
Manufactures, n.e.s.	33.5	11.1	8.4	7.2	33.0	15.2	34.6	5.1	35.4	7.5	12.2	11.6	12.5	3.8

Source: Compiled from WTO Tariff Schedules; Note: B – Final average bound tariff rate; A- MFN Applied average tariff rate.

**Appendix 2: Binding Overhang and Binding Tariff Lines (%)**

Product groups	India		Russia		Brazil		Mexico		Indonesia		China		South Africa	
	BO	Bdg	BO	Bdg	BO	Bdg	BO	Bdg	BO	Bdg	BO	Bdg	BO	Bdg
Animal products	72	100	-	100	29.5	100	45.6	100	36.6	100	0.7	100	26.3	100
Dairy products	29	100	0.2	100	30.5	100	39.7	100	68.5	100	0.1	100	83.1	100
Fruit, vegetables, plants	68.7	100	0.4	100	24.4	100	21.4	100	39.9	100	0	100	18.9	100
Coffee, tea	76.8	100	1	100	20.8	100	44.2	100	32.1	100	0	100	58.2	100
Cereals &	77	100	0.6	100	32.2	100	36.8	100	37.4	100	0.7	100	36	100

preparations														
Oilseeds, fats & oils	111	100	0.6	100	26.7	100	37.4	100	35.5	100	0.2	100	39.4	98.8
Sugars and confectionery	74.7	100	1.6	100	17.9	100	88.4	100	51.1	100	-	100	63.6	100
Beverages & tobacco	45.7	100	0.9	100	20.4	100	14.7	100	35.5	100	-	100	68.5	100
Cotton	84	100	0	100	48.6	100	39.4	100	33.4	100	4	100	55.4	100
Other agricultural products	76.6	100	0.6	100	21.1	100	21.5	100	36.6	100	0.3	100	9.8	100
Fish & fish products	105.7	24.6	0.9	100	23.3	100	20.9	100	33.7	100	0.1	100	12.1	1.8
Minerals & metals	27.3	61.5	0.8	100	22.8	100	30.7	100	31.7	97.7	0.2	100	6.8	96.0
Petroleum		0	0.6	100	34.9	100	38	100	39.8	100	-	100		0
Chemicals	29.5	88.9	0.6	100	13	100	32.9	100	32.6	96.0	0	100	10.3	99.6
Wood, paper, etc.	26.4	64.4	0	100	18	100	29.7	100	34.4	100	0.9	100	5.6	100
Textiles	6.4	70.3	0.3	100	11.5	100	25.2	100	14.9	99.7	0.2	100	4.9	99.1
Clothing	17.2	58.7	1.1	100	0	100	13.8	100	11.1	100	0.1	100	4	100
Leather, footwear, etc.	22.5	51.6	0.5	100	18.8	100	28.6	100	29.8	99.4	0.5	100	7.4	96.2
Non-electrical machinery	20.8	95.4	3.2	100	19.6	100	32.3	100	29.6	98.3	0.3	100	7.8	100
Electrical machinery	19	93.5	1.7	100	18	100	30.9	100	24.5	96.5	0.5	100	12.8	99.6
Transport equipment	4.6	70.6	0.7	100	14.1	100	28.5	100	25.3	52.8	-	100	11.8	100
Manufactures, n.e.s.	22.4	43.5	1.2	100	17.8	100	29.5	100	27.9	87.0	0.6	100	8.7	95.2

Source: Compiled from WTO Tariff Schedules; Note: BO – Binding Overhang, computed as difference between final average bound tariffs and final average applied tariff rates; Bdg: Share (%) of tariff lines with defined bound rates