Lower import tariffs on inputs, other incentives sought

Revamped Special Economic Zones Act or its replacement by the DESH Act (Development of Enterprise and Service Hubs Act) could be another magnet for investments.

Written by Mukesh Jagota

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Government should consider extending the duration of existing PLI schemes where the budgetary outlays are still unutilised. (Image/Reuters)

The coming general Budget could undertake adjustments of taxes and unveil incentives for Indian industry to take advantage of the opportunity that could emerge, if Trump administration’s moves escalate the worldwide trade tensions, according to experts.

For several months, Donald Trump has been open about increasing tariffs on imports from everywhere to 10%, and on Chinese imports to 60%.In addition to tariffs, the US has put other curbs to block access to advanced technologies and raw materials to China. China too has retaliated with curbs on exports of critical minerals used in electric vehicle batteries and technologies hurting everyone else, not just the US.

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In the big power fight that is expected in the days ahead, India will have to be building up fresh capacities in the tech technology and capital intensive sectors locally by massive doses of local and foreign direct investment (FDI) to get ready for the situation, and the budget announcements can pave the way for it, economist at Deloitte Rumki Majumdar said.

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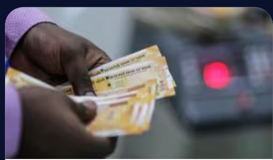

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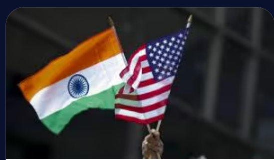

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"Adjustments in customs taxes could significantly ease the path for companies to invest in India and establish a component of their supply chain here. The government can consider reducing or simplifying import duties on key raw materials and intermediate goods. This would lower the cost of entry for foreign investors, making India a more attractive destination for setting up production and assembly units," Co-Head, M&A and Private Equity Practice at Nishith Desai Associates Harshita Srivastava said.

Industry chambers have asked for reduction of duty on many of the raw material, inputs and freed stock to zero in their pre-budget recommendations to the Ministry of Finance. The products on which nil duty has been asked for include coking coal, non coking coal, telecom networking products and capital goods for defence business. Other sectors where reduction in duties have been asked for are chemicals and metals.

Government could extend the 15% concessional tax rate for new domestic manufacturing companies, which expired in March 2024 to encourage investment in this sector, tax partner at EY India Kunal Chaudhry said. They could also consider additional depreciation allowances for large investments or subsidies for setting up manufacturing plants for specific sectors or regions.

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Apart from change in duty structure for ease of doing business, the government can also look at some incentives to attract capital “Government can look to introduce capital expenditure and sales linked schemes with high financial outlay for advanced manufacturing sectors like Electronic and Semiconductor components, drone components, rail components, to increase value addition in India,” Chaudhry said.

Government should consider extending the duration of existing PLI schemes where the budgetary outlays are still unutilised. “In addition to PLI in the large sectors, there is a need to attract investments in allied ecosystems which act as tier 1 and 2 vendors to these sectors like electronics and renewables. The developed services ecosystem has already helped India gain prominence in exports and attract FDI. There is a need to create a structured ecosystem of similar players from raw material suppliers, research and logistics through linked benefits,” Nilaya Varma, co-founder and CEO of Primus Partners, said.

“Incentive schemes emphasized for Micro Small and Medium Enterprises (MSME’s) can be introduced to encourage manufacturing and empowering entrepreneurs which in turn can strengthen India’s manufacturing sector, supply chains, and global competitiveness,” EY’s Chaudhry said.

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For now India’s strategy to gain from the world’s move to China plus one depends heavily on China as many industries depend on Chinese machinery, intermediate goods and components so deft moves would be required on the policy front, founder of Global Trade Research Initiative Ajay Srivastava said.

He suggested strengthening partnerships with South Korea and China for high quality components for electronics, solar panels and electric vehicles. "Engaging with these countries will help cut reliance on China and build more resilient supply chains," he added.

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