Why countervailing duty is so important economics essay

Economics

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\n[/toc]\n \nBangladesh exports its RMG products frequently to the European Union and the United States of America. These two destinations account for more than a 90 per cent share of the country's total income from garment exports. The country has achieved some product diversification in both the United States and the European Union. Recently, the country has achieved some stage of product promotion in the European Union, but not to a significant amount in the United States. Bangladesh is less forceful compared with China or India in the United States and it is slightly competitive in the European Union. The phase-out of the export-quota system from the beginning of 2005 has raised the competitiveness matter of the Bangladesh RMG industry as a top main concern topic. The most important task for the industry is to decrease the lead time of garment manufacturing. The improvement of deep-level competitiveness through a decreasing in total " production and distribution" time will get better surface-level competitiveness by reducing lead time. Such a policy is important for long-term steady development of the industry, but its execution will take time. In contrast, the organization of a central or common bonded storehouse will improve surface-level competitiveness by reducing lead time, but deep-level competitiveness will not be enhanced and long-term industry development will be belated. Therefore, granting authorization to establish in the private sector such warehouses with particular incentives, such as the duty-free import of raw materials usable in the export-oriented garment industry for dropping the lead time in garment manufacturing is a serious matter for Bangladesh. What is countervailing duty? Countervailing duty is a supplementary import duty imposed to recompense the effect of concessions and subsidies decided by an exporting country to its exporters. Obligation of countervailing duty is an effort to bring imported prices to its true market price, and thus provides a level-playing field to importing country's producers. A duty placed on imported goods that are being subsidized by the importing government. This helps to even the playing field between the domestic producers and the foreign producers receiving subsidies. Subsidized goods allow a producer to sell at a lower price than it could without the subsidy compensation. If this producer sells into the international market, they can often undercut the pricing of producers in other countries who don't receive subsidies from their government. If the subsidized foreign producer goes unchecked, the domestic producers could be run out of business, causing lost jobs and other economic losses.

Why countervailing duty is important?

Countervailing duty or supplementary duty of customs is levied to make up for the disadvantage to like Indian goods due to high expunge duty on their inputs. Obligation of a countervailing duty is an effort to bring the imported price to its factual market price, and thus provides a level playing field to the importing country's producers. This supplementary duty will not be included in the measurable value for levy of education cuss on imported goods.

Users of CVD

Until the 1990s, the United States, followed, to a lesser extent, by Australia and Canada, were the main users of countervailing duty actions. However, since that time, the EC and some developing countries have also started to apply countervailing measures. According to WTO statistics, the current main users include the EC and Brazil in addition to the three traditional users. Garment industry hails Countervailing Duty (CVD) on Bangladesh goodsThe decision to oblige Countervailing Duty (CVD) on garments imported from Bangladesh is being professed as a game-changer for the industry. The union budget for 2013-14 has forced countervailing duty of 12. 36% and supplementary cuss of 3% on garments imported from Bangladesh. This was one of the key demands of the knitwear and ready-made garment manufacturers here, who were complaining frequently that the duty-free import of garments from Bangladesh was excruciating the Indian industry badly. The decision to take out the central expunge duty on branded garments was also a cause to cheer for them. Now, the industry is confident that three factors, including extraction of 12. 36% of central excise duty on branded garments, imposition of CVD and instructive cuss would collectively bring about a change in their condition. Chairman of knitwear club, Vinod Thapar said: " The imposing CVD and educational cuss on garments imported from Bangladesh will make sure a level-playing field to Indian manufacturers, whose prospects were being harm due to a tough rivalry from neighboring country."" Due to some technological reasons the industry came to know about the budgetary conclusion late," he added. The textile industry of Bangladesh was enjoying a duty free right of entry to the Indian market after Prime Minister Minoan Singh's visit to the neighboring country in September 2011. The decision had permitted as many as 46 textile items from Bangladesh to hit the Indian market without any duty. It was a long-pending command of the Indian manufacturers to impose the duty on Bangladesh garments claiming that the decision was badly throbbing their wellbeing by rendering their products uncompetitive in the market in conditions of price. The decision would put a check on attack of Chinese industry in the Indian market throughout Bangladesh route as Bangladesh manufacturing industry has been using cheaper Chinese fabrics.

" The subsidy to Bangladesh manufacturers in their country and middle excise duty on Indian branded garments here were making Indian products costlier, thereby hurting wellbeing of the industrialists here resulting in decrease in sale," Darshan Dawar, president of knitwear club said. President of Ludhiana Knitters Association Ajit Lakra said the decision would help the industry a lot as it was being exaggerated by cheap garments from Bangladesh. Lauding the decision he said: " This will stop dumping of goods or materials in the Indian market with neighbouring country's material and will push up sale of Indian manufacturers. It will also ensure growth of the industry, which was stopped for quite some time."

Indian CVD and Bangladesh RMG exports

The issue of the CVD (countervailing duty), which is a necessary appendage to the Indian duty arrangement, has been a cause for argument for quite some time. The Union budget of India has levied fresh CVD on import of apparels that are believed to gravely harm Bangladesh's exports to India.

Important to note, this is going to invalidate the duty-free action of Bangladesh apparel exports that India had earlier allowed. The CVD is a much discussed issue in trade-related bilateral and regional level talks. Ever since the operationalisation of SAPTA (South Asian Preferential Trading Arrangement) followed by SAFTA (South Asian Free Trade Agreement), exports from Bangladesh has suffered on account of the CVD that prevailed on most imported products including those which got full or fractional duty allowance under these agreements. Excess duties on account of CVD and other taxes borne by Indian importers of Bangladeshi products almost amount to the corrosion of duty concessions. The matter has caused serious concern this time as the largest export sector of the country, garments, is exaggerated. Controversy over the Indian CVD is not a new one for the simple reason that it is by its very definition 'Indian', and most observers while trying to tell it to the WTO definition of the term tend to puzzle it altogether. Ideally, under the WTO rule-based trading system, CVD can be applied to imports to counteract the effects of unfair pricing, resulting from subsidies that the imported product may have received at one or more stages of production in its country of origin. The quantum of CVD should be equal to the extent of financial support received to ensure a consistently poised ground for domestic product by way of suspicious it from unfair competition of the imported product. Imposition of CVD is a thorough process involving a scrupulous investigation by the importing country into the practices of subsidy in the exporting country. The CVD that India imposes from time to time on imported products, as already mentioned, is not WTO-driven. Hence from the Indian outlook, trying to figure out the lacuna in the context of WTO disciplines is not suitable. The Indian authorities have been resorting to this stand as and when CVD featured as an issue of discuss with their trading partners. The Indian CVD is defined as a means of ensuring national action by way of balancing domestic taxes -- namely excise duty -- that local producers pay for the products. But the question that one needs to find out is: can India as a member of the WTO plan its own mechanism in the name of protecting home products and ensuring national treatment? A reply in the negative is what most experts will not vacillate to utter. The crux of the matter is still a little deeper. What had been resorted to as a balancing of excise duties applicable to the home industry, has, of late, taken a random stance. India, according to a report, has lifted the excise duty payable by Indian garment manufacturers, but has kept the 12 per cent CVD on imported garments. Bangladesh Garments Manufacturers and Exporters Association sources have reportedly intended the total amount of payable duties which comes to 13. 24 per cent on Bangladeshi garments, including 3. 0 per cent education cuss (tax) on the CVD and a further 4. 0 per cent special CVD. The withdrawal of the excise duty has been hailed by the Indian domestic apparel industry, as it would make their products far more competitive as against the imported products, especially those from Bangladesh. The ministry of finance in India, issued a letter to the authorities concerned about the Finance Bill, 2013 that brought changes in customs and central excise law and rates of duty. The letter said zero excise duty, as existed prior to Budget 2011-12, is being restored on readymade garments and made-ups. The zero excise duty will now be available to producers of garments, in addition to the CENVAT (central VAT) under which manufacturers can pay excise duty on the final product and avail of credit of duty paid on inputs. It is believed that this, besides making the domestic products competitive, will also provide protection to the domestic industry from cheap imports. The Indian media also speculates that the zero excise duty will encourage foreign retailers to set up shops in India to manufacture their supplies in India, rather than import from other countries. Now the vital issue is erosion of duty benefit allowed to Bangladesh. The FBCCI (Federation of Bangladesh Chambers of Commerce and Industry) has in the interim taken up the matter with the government of Bangladesh in order that the issue is discussed at length with the government of India. The issues that need to be highlighted in the joint talk at the government level are: a) the duty-free status is nullified due to the CVD and removal of excise duty, and b) it is equal to denial of market access -- an apparent gesture of 'yes', meaning 'no'ConclusionThe excise duty on recognized readymade garments was removed in the budget in the wake of industry witnessing almost zero per cent growth in 2011-13. The industry will also be benefited by imposition of 12 per cent countervailing duty on import of garments from Bangladesh, he said. Previous, import of garments from Bangladesh did not draw import duty nor there was any quota and Bangladesh was used to removal cheap garments made of Chinese fabrics in India. Now, budget has imposed 12 per cent Countervailing Duty (CVD) plus Education Cass (3 per cent of CVD) on garment exports to India from Bangladesh which will provide buffer to domestic industry. This will also give confidence foreign retailers setting up shop in India to manufacture their requirements in India, rather than import finished garments from other countries, he said. The industry is estimated to be worth around Rs 2 lakh crore with exports accounting for another Rs 60, 000 to Rs 70, 000 crore.