India Secures Lower US Tariffs Under Section 301 Amid Forced Labour Compliance

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US Tariffs Latest News

- The United States has imposed **10% additional** tariffs on imports from India under Section 301 of the US Trade Act, lower than the 12.5% initially proposed.
- The reduction **follows India's decision** to prohibit imports of goods produced using forced labour, aligning with US concerns while India and the US continue negotiations on a bilateral trade agreement.

Why the US Imposed Section 301 Tariffs

- **Section 301 of the US Trade Act**:
    - It authorises the US to investigate and respond to unfair foreign trade practices.
    - Remedies include additional tariffs, import restrictions or negotiated settlements.
    - Unlike Section 122, Section 301 measures remain effective until modified or withdrawn.

- Earlier, the US Trade Representative (**USTR**) initiated an investigation against 60 trading partners, alleging inadequate measures to prevent imports of goods produced through forced labour.
- The tariffs **replace** temporary **Section 122 tariffs**, which could remain in force only for 150 days, whereas Section 301 tariffs are permanent unless reviewed by the US administration.
- The measure seeks to protect American industries from unfair trade practices linked to forced labour.

India’s Policy Response

- Ahead of the US decision, the Directorate General of Foreign Trade (**DGFT**) amended the Foreign Trade Policy by prohibiting the import of goods manufactured wholly or partly using forced labour.
- **Significance:**
  - India’s **compliance reduced** the proposed **tariff** from 12.5% to 10%.
  - It strengthened India’s image as a responsible trading partner.
  - The move complements ongoing India-US Free Trade Agreement (**FTA**) negotiations.
- **DGFT**: Functions under the Ministry of Commerce and Industry, DGFT implements India’s Foreign Trade Policy, and regulates exports and imports through notifications and licensing mechanisms.

Tiered US Tariff Structure

- **Most favoured category:**
  - **The European Union (EU)** and Taiwan receive the most favourable treatment. Additional Section 301 tariffs apply only where existing Most Favoured Nation (**MFN**) tariffs are below specified thresholds.
  - **MFN**: A core World Trade Organization (WTO) principle requiring members to extend the same tariff treatment to all WTO members unless covered by FTAs or other recognised exceptions.
- **India’s category (10% tariff):** India joins 17 economies, including Bangladesh, Pakistan, Sri Lanka, Malaysia, Indonesia, Canada, Mexico, and the United Kingdom.
- **Least favoured category (12.5%):** Countries facing higher tariffs include China, Vietnam, Russia, Brazil, Australia, Türkiye, Saudi Arabia, and Philippines. Thus, India enjoys a relative tariff advantage over several major export competitors.

Impact on India’s Export Competitiveness

- **Positive outcomes:**
  - Indian exporters retain competitiveness in labour-intensive sectors such as textiles, garments, leather, and footwear.
  - India’s tariff burden is lower than that of China and Vietnam, improving export prospects.
- **Limitations:**
  - Around 70% of India’s exports to the US will now attract existing MFN tariff, plus 10% Section 301 tariff.
  - Products already covered under Section 232 (steel, aluminium, copper, automobiles and auto components) continue to face 25–50% tariffs.

Textile Tariff-Rate Quotas (TRQs) – A Competitive Concern

- The US introduced TRQs for Bangladesh, Cambodia, Indonesia, and Malaysia.
- **Features:**
    - Limited quantities of textiles and apparel from these countries can enter the US without Section 301 tariffs for three years.
    - These countries are also encouraged to source US cotton and textile inputs.
- **Implications for India:** India has not received a TRQ, potentially reducing its competitiveness in textile exports. Bangladesh, a major importer of Indian cotton and fibre, may increasingly shift towards US inputs.

Major Exemptions from Section 302 Tariffs

- The US has exempted several categories from additional tariffs, including –
    - Aircraft and aviation equipment.
    - Pharmaceutical products and pharmaceutical ingredients.
    - Certain fertilisers, pesticides and industrial chemicals.
    - Pig iron, aluminium scrap and strategic minerals.
    - Semiconductor manufacturing equipment.
    - Battery waste and recyclable materials.
    - Agricultural inputs, seeds and selected food products.
    - Medical devices such as MRI machines, ECG equipment and defibrillators.
    - Selected artworks, antiques and collectibles.
- These exemptions aim to prevent supply disruptions and inflation while safeguarding critical industries.

Future Trade Risks

- Apart from forced labour concerns, the USTR is conducting another investigation into **excess manufacturing capacity** involving India, China, the EU, Japan, Singapore, Switzerland and others.
- Possible consequences include – Additional trade restrictions or tariffs, greater scrutiny of industrial subsidies and manufacturing policies, and new challenges for India's export sector despite ongoing FTA negotiations.

Conclusion

- India's prohibition on imports produced through forced labour enabled it to secure a lower 10% US Section 301 tariff, **preserving its competitiveness** relative to major rivals such as China and Vietnam.
- It strengthens India's position in labour-intensive exports and supports ongoing India-US trade negotiations.
- However, the absence of textile TRQs and the possibility of further US investigations into excess manufacturing capacity indicate that trade relations will continue to evolve, requiring sustained **policy reforms** and **strategic engagement**.

Source: IE | FE
