

How Quality Control Orders Hurt India's MSMEs and Export Competitiveness

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Quality Control Orders Latest News

- Industry representatives have cautioned that Quality Control Orders (QCOs), originally intended to improve product quality and curb substandard imports, are increasingly being used as protectionist tools.
- Experts noted that QCOs have become non-tariff barriers, raising compliance costs and regulatory burdens for **Micro, Small & Medium Enterprises (MSMEs)**, especially as India faces added pressure from U.S. trade tariffs.

About Quality Control Orders

- Quality Control Orders (QCOs), issued under the Bureau of Indian Standards (BIS) Act, 2016, mandate that no product can be manufactured, imported, or sold without a BIS certification once notified.
- Originally meant **to enhance product quality and restrict substandard imports**, QCOs have been aggressively expanded since 2019 to reduce import dependence and boost domestic manufacturing under

the self-reliance agenda.

- Their number has surged from 88 in 2019 to 765 by December 2024, with metals, machinery, and electronics together accounting for over 60% of all QCOs issued between 1987 and 2025.

Quality Control Orders: A Costly Misstep for India's MSMEs and Export Competitiveness

- While India opens its markets through new Free Trade Agreements (FTAs), its parallel drive to impose Quality Control Orders (QCOs) has backfired.
- Instead of improving product quality, the move has hurt MSMEs and weakened export competitiveness by increasing costs and regulatory hurdles.

NITI Aayog's Findings on QCOs

- A NITI Aayog report by the High-Level Committee on Non-Financial Regulatory Reforms found that **most QCOs target raw materials and intermediate products, not finished goods**.
- It also noted that **many standards are misaligned with global benchmarks**, leading to higher input costs, production delays, and limited access to accredited testing facilities.
- These bottlenecks have eroded cost competitiveness for downstream manufacturers.

CSEP Study: No Long-Term Export Gains

- A Centre for Social and Economic Progress (CSEP) study revealed that imports fell sharply after QCO implementation — down **13% in the first year and 24% over the long term**.
- While exports briefly rose by 10.6%, they fell by 12.8% in the following year, showing no sustained benefits.
- For intermediate goods, imports plunged by 30% in the long run, undermining domestic production capacity and challenging QCOs' effectiveness as a competitiveness tool.

Quality Norms Hurt Export Sectors and Boost Market Concentration

- NITI Aayog has warned that QCOs have hurt export-oriented and labour-intensive sectors like footwear and electronics, which employ around 4.5 million people.
- These industries depend on imported intermediate materials crucial for product quality and design flexibility.
- QCOs on such inputs have restricted access to globally sourced materials, as foreign suppliers struggle to obtain BIS certification, leading to market concentration among a few domestic producers.
- This has allowed them to **raise prices by 15-30% above global benchmarks** for products like polyester yarn and steel, reducing India's cost competitiveness in global markets — notably in apparel exports.
- According to CSEP, MSMEs face heavy compliance costs (₹10,000–₹15,000 per consignment) and approval delays, while limited testing infrastructure and non-alignment with global standards worsen trade frictions.
- Larger firms, better equipped to absorb these costs, often gain at the expense of smaller players, deepening market inequality and export inefficiency.

MSMEs Bear the Brunt of Quality Control Compliance Burden

- According to NITI Aayog, Micro, Small, and Medium Enterprises (MSMEs) are the worst hit by the implementation of Quality Control Orders (QCOs) due to high certification costs, testing delays, and stringent inspection requirements.
- Testing backlogs at BIS-approved labs often stretch for months, while the expense of obtaining and renewing licences is prohibitive for small firms with tight margins.
- Unlike exporters in **Special Economic Zones (SEZs)**, MSMEs in the Domestic Tariff Area (DTA) lack access to duty-free import channels, reducing their competitiveness in both domestic and global markets.
- The report also urged the government to revoke the Steel Import Monitoring System (SIMS) and No Objection Certificate (NOC) process for non-BIS steel grades, noting that the Directorate General of Foreign Trade (DGFT) already has systems to effectively monitor imports and exports.

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