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India's Tariff Policy and International Trade: Protection, Liberalization, Industrial Strategy and the Evolution of Border Measures

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Abstract

Tariffs remain an important component of India's international trade policy and industrial strategy. Although India has progressively liberalized many trade barriers since the reforms of the early 1990s, its tariff structure remains relatively protective compared with many major trading economies and varies substantially across product categories. This narrative review examines India's tariff regime, its historical evolution, economic rationale, sectoral structure, relationship with trade agreements, and implications for competitiveness, consumers, government revenue and global value-chain participation. Current WTO data indicate that India's simple-average most-favoured-nation (MFN) applied tariff was 15.8% in 2025, while the trade-weighted MFN average was 7.9% in 2024; the WTO reports an effective applied tariff of 5.8% from 1 January 2026 (WTO, 2026). Earlier WITS data based on UNCTAD TRAINS show a 2023 effectively applied simple average of 9.81%, a weighted average of 5.22%, and a maximum tariff rate of 150% (World Bank, 2024). These differences demonstrate the importance of distinguishing between simple averages, trade-weighted averages, MFN rates, preferential rates and effective applied rates. The article argues that tariff policy in India increasingly operates alongside broader industrial policies, production incentives, trade agreements, standards and customs reforms. The principal policy challenge is to balance legitimate industrial-development objectives with the costs of tariff escalation, imported-input prices, trade diversion and uncertainty. The review concludes with recommendations for greater tariff transparency, predictable reform, lower barriers on productive inputs, stronger rules-based trade administration, improved use of trade agreements and systematic evaluation of tariff effects.

Keywords: tariffs; customs duties; trade policy; import protection; MFN tariffs; trade liberalization; industrial policy; free trade agreements; global value chains

1. Introduction

Tariffs are taxes or duties imposed on imported goods and remain one of the oldest instruments of commercial policy. Their economic effects extend beyond customs revenue: tariffs can alter domestic prices, production incentives, consumption, import demand, investment decisions and the competitiveness of firms that use imported intermediate goods. For a large and diverse economy such as India, tariff policy has implications across agriculture, manufacturing, electronics, automobiles, chemicals, textiles, energy, capital goods and consumer products.

India's tariff policy has evolved substantially since the trade reforms initiated in the early 1990s. The reform period reduced many exceptionally high tariffs and shifted the policy environment toward greater integration with global trade. Nevertheless, tariff protection remains an important instrument of Indian economic policy, particularly where policymakers seek to support domestic manufacturing, encourage value addition or manage import competition.

Current WTO data illustrate the continuing importance of tariffs. The WTO reports a 15.8% simple-average MFN applied tariff for India in 2025 and a 7.9% trade-weighted MFN average for 2024. It also reports an effective applied tariff of 5.8% beginning 1 January 2026 (WTO, 2026). These indicators should not be treated as interchangeable because each uses a different methodology and reference period.

The purpose of this article is to examine India's tariff regime as a component of international trade policy. The article asks how India's tariff system evolved, what characterizes its current structure, how tariffs interact with industrial policy and trade agreements, and what policy considerations arise from balancing protection, competitiveness and integration into global value chains.

2. Conceptual and Theoretical Framework

2.1 Tariffs and domestic prices

In the standard small-country trade model, an import tariff raises the domestic price above the world price. Consumers reduce consumption, domestic producers increase output, and imports decline. The government receives tariff revenue, while the economy can experience deadweight losses associated with production and consumption distortions (Krugman, Obstfeld, & Melitz, 2018).

2.2 Infant-industry and strategic arguments

Tariff protection can be justified by policymakers on infant-industry grounds, especially where temporary protection is expected to permit learning, scale economies or technological upgrading. However, protection can become persistent if firms have weak incentives to improve productivity. Modern industrial policy therefore increasingly combines targeted support with performance conditions, infrastructure, skills and technology rather than relying solely on tariffs.

2.3 Tariffs and global value chains

Global value chains complicate traditional protection arguments because imports can be inputs into exports. A tariff on machinery, components or intermediate materials can increase the costs of domestic producers and reduce their international competitiveness.

3. Methodology

This manuscript uses a narrative review of official tariff databases, international trade statistics and established trade-policy literature. The principal current source is the World Trade Organization's India tariff profile and World Tariff Profiles 2026. World Bank WITS data based on UNCTAD TRAINS are used for historical comparison. Because tariff data are sensitive to classification, year, trade weights, preferential agreements and ad valorem equivalents for specific duties, the manuscript explicitly identifies the source and indicator when reporting numerical tariff values.

4. Historical Evolution of India's Tariff Policy

India's post-independence trade regime was characterized for decades by extensive import controls, quantitative restrictions and high tariff barriers. The balance-of-payments crisis of 1991 contributed to a major policy shift. Trade reforms subsequently reduced tariffs, removed many quantitative restrictions and increased exposure to international competition.

The reform process was not equivalent to complete tariff liberalization. India continued to use tariffs as instruments of industrial, agricultural and fiscal policy. Over time, tariff schedules became more differentiated, while preferential rates under regional and bilateral trade agreements introduced additional complexity.

The long-run trajectory is therefore best understood as a transition from very high and broadly restrictive protection toward a more selective tariff system embedded in a larger policy framework.

5. Current Profile of India's Tariff Regime

Indicator	Latest reported value	Reference period/source
Simple average MFN applied tariff	15.8%	2025, WTO
Trade-weighted MFN average	7.9%	2024, WTO
Effective applied tariff	5.8%	1 January 2026, WTO/IMF tracker
Simple average effectively applied tariff	9.81%	2023, WITS/UNCTAD TRAINS
Trade-weighted effectively applied tariff	5.22%	2023, WITS/UNCTAD TRAINS
Maximum effectively applied tariff	150%	2023, WITS/UNCTAD TRAINS
MFN binding coverage	74.4%	Current WTO profile

Sources: WTO (2026); World Bank WITS/UNCTAD TRAINS (2024). The indicators are not directly interchangeable because they use different reference years and methodologies.

6. Why Tariff Averages Differ

Tariff averages can produce substantially different pictures of protection. A simple average gives equal weight to each tariff line, whereas a trade-weighted average gives greater weight to products imported in larger values. A country may therefore have a relatively high simple average while its trade-weighted average is substantially lower. Preferential agreements introduce another distinction because actual duty liability can be lower than MFN rates when rules of origin are satisfied.

India's WTO profile also shows a substantial difference between bound tariffs and applied tariffs. The WTO reports a simple-average bound tariff of 48.5%, compared with a 15.8% simple-average MFN applied tariff in 2025 (WTO, 2026).

7. Tariff Structure Across Agricultural and Non-Agricultural Products

India's tariff structure differs sharply across agricultural and non-agricultural goods. The WTO's 2025 tariff profile reports a 36.7% simple-average MFN applied tariff for agriculture in 2024 and 13.0% for non-agricultural products, compared with an overall average of 16.2% for that year (WTO, 2025).

Product group	Illustrative policy concern	Potential trade effect
Agriculture	Farm incomes, food security and domestic production	Protection can support producers but raise consumer prices.
Manufacturing	Domestic production and upgrading	Protection may support producers but increase input costs.
Electronics	Domestic assembly and value addition	Tariffs can encourage local production while raising component costs.
Automobiles	Local manufacturing and supply chains	Higher protection can support capacity but affect prices.
Textiles	Employment and export competitiveness	Input tariffs can affect downstream competitiveness.
Capital goods	Investment and productivity	High tariffs on machinery can raise investment costs.
Intermediate goods	Domestic value chains	Input protection may reduce downstream competitiveness.

8. Tariffs and Industrial Policy

India's contemporary tariff policy is closely connected with industrial-development objectives. Tariffs can alter relative profitability and influence whether firms source inputs domestically or internationally. When combined with production incentives, infrastructure investment, technology policy and investment facilitation, tariffs can form part of a broader industrial strategy. The critical issue is policy design: protection is more likely to contribute to long-term competitiveness when firms face incentives to improve productivity and enter export markets.

For sectors integrated into global production networks, policymakers must consider the tariff treatment of intermediate goods. A tariff that protects one domestic industry may impose costs on another domestic industry using the protected product as an input.

9. Tariffs and Global Value-Chain Participation

Participation in global value chains requires access to competitively priced imported components, machinery, technology and services. Tariff escalation can encourage processing within India by imposing lower duties on raw materials and higher duties on processed goods, but high tariffs on intermediate inputs can create cost disadvantages for downstream firms. A coherent tariff structure therefore needs to consider entire production chains rather than individual industries in isolation.

10. Tariffs, Consumers and Welfare

The welfare effect of a tariff involves distributional trade-offs. Domestic producers competing with imports may benefit from higher prices and increased market share. Government receives tariff revenue, while consumers generally pay higher prices and face reduced variety. Firms using imported inputs may also face higher costs. The distribution depends on market structure and domestic competition, so tariff evaluation should examine both producer and consumer effects.

11. Tariffs and Government Revenue

Customs duties historically played an important fiscal role in developing economies. As economies liberalize, governments can replace tariff revenue with domestic taxes. India's broader tax reforms changed the structure of domestic taxation, although customs duties remain relevant to border taxation. The fiscal role of tariffs should therefore be distinguished from their protective role.

12. Tariffs and Free Trade Agreements

India participates in preferential trade arrangements that can reduce tariffs below MFN rates for eligible products. These arrangements make rules of origin, customs documentation and tariff classification increasingly important for businesses. Trade agreements can lower barriers and expand market access, but they can also create trade diversion. Effective use therefore requires firms to understand origin rules and compliance costs.

13. Tariff Policy and Customs Administration

Tariff policy becomes economically meaningful only when customs administration can classify goods accurately, assess duties consistently and process imports efficiently. Modern customs systems increasingly use digital declarations, risk management, automated assessment and electronic documentation. Customs efficiency can reduce trade costs even when statutory tariff rates remain unchanged.

14. Non-Tariff Measures and the Limits of Tariff Analysis

Tariffs are only one component of market access. Technical regulations, sanitary and phytosanitary measures, licensing requirements, quotas, standards, labeling rules and customs procedures can materially affect trade. WTO World Tariff Profiles presents tariff information alongside non-tariff measures (WTO, 2025; WTO, 2026).

15. Tariff Uncertainty and Business Investment

Businesses make investment decisions partly on expected future market conditions. Frequent tariff changes can create uncertainty about input costs and competitiveness. India's gap between bound and applied tariffs provides policy flexibility but can also mean that applied rates change within WTO commitments. Transparent consultation, advance notice and stable tariff roadmaps can reduce uncertainty.

16. Tariffs and Digital/E-Commerce Trade

Digital trade changes the relationship between border policy and commerce. Physical goods purchased online may still face customs duties, while digitally delivered services raise different questions about taxation and

regulation. For goods sold through e-commerce, simplified customs procedures and transparent tariff information can reduce compliance costs for small businesses.

17. Challenges in India's Tariff Policy

Challenge	Potential effect	Policy consideration
Tariff escalation	Can raise effective protection for final goods	Evaluate entire value chains.
Input tariffs	Increase costs for downstream producers	Review duties on productive intermediates.
Frequent changes	Create investment uncertainty	Publish predictable tariff roadmaps.
Complex preferences	Increase compliance costs	Simplify origin and customs procedures.
Agricultural protection	May support producers but raise import prices	Balance producer and consumer interests.
Trade diversion	Can shift sourcing toward preference partners	Assess agreements using utilization and welfare evidence.
Non-tariff measures	Can offset tariff reductions	Improve transparency and regulatory cooperation.
SME compliance	Fixed costs may discourage trade	Provide accessible tariff information.

18. Strategic Framework for India's Tariff Policy

Policy pillar	Priority action	Expected contribution
Transparency	Publish clear schedules and changes	Lower uncertainty.
Input competitiveness	Review duties on productive intermediates and capital goods	Improve downstream competitiveness.
Industrial strategy	Link protection to productivity objectives	Reduce risk of permanent protection.
Trade agreements	Improve utilization of preferential access	Expand market opportunities.
Customs modernization	Digitalize classification and documentation	Reduce transaction costs.
Consumer welfare	Monitor price effects	Improve distributional outcomes.
Agriculture	Evaluate protection alongside food and farm objectives	Balance competing interests.
Evidence-based review	Conduct periodic tariff-impact assessments	Improve policy quality.
Global value chains	Align tariffs with export and production strategies	Support competitiveness.

19. Discussion

India's tariff regime reflects the tension between protecting or developing domestic productive capacity and integrating firms into competitive international markets. The historical reduction of very high trade barriers represents substantial liberalization, yet the current structure remains differentiated and relatively protective in several areas.

No single tariff statistic captures the entire regime. WTO data show a 15.8% simple-average MFN tariff in 2025, a 7.9% trade-weighted MFN average for 2024 and an effective applied tariff of 5.8% from January 2026 (WTO, 2026). WITS' 2023 UNCTAD TRAINS data produce different values because of methodology, year, weights and tariff concepts.

Tariff policy should be evaluated at the value-chain level. A tariff that protects a domestic final-good producer can simultaneously raise the cost of components used by another domestic industry. For India, where policymakers seek both import substitution in selected sectors and greater export competitiveness, this interaction is especially important.

Tariffs increasingly operate as one component of a broader commercial-policy system that includes industrial incentives, standards, customs reform, investment policy and preferential trade agreements.

20. Recommendations

• Maintain transparent and predictable tariff schedules, with advance communication of major changes.

• Periodically review tariffs on intermediate goods and capital equipment important for domestic production and exports.

• Evaluate tariff protection against measurable objectives such as productivity, investment, innovation and export performance.

• Strengthen the use of trade agreements by simplifying rules-of-origin information and supporting firms with compliance.

• Improve customs digitalization and tariff-classification guidance, especially for small and medium-sized enterprises.

• Assess tariff policy using both producer and consumer effects rather than only import-substitution objectives.

• Coordinate tariff policy with non-tariff regulation so legitimate standards do not create unnecessary barriers.

• Use sector-specific evidence to distinguish temporary industrial support from persistent protection.

• Develop regular public evaluations of tariff changes using trade, price, investment and productivity indicators.

• Align tariff policy with India's longer-term objective of participating more deeply in global value chains while retaining legitimate industrial-policy space.

21. Limitations

This manuscript is a narrative review rather than an econometric study. It does not estimate causal effects of individual Indian tariff changes on prices, employment, investment or welfare. Tariff statistics are sensitive to source, classification, year, weighting method and treatment of specific duties. Product-level import decisions should therefore be checked against the current Indian customs tariff and applicable preferential rules.

22. Conclusion

Tariffs remain an important element of India's international trade policy, but their role has changed substantially over time. India has moved from a highly restrictive trade regime toward a more differentiated system in which tariffs coexist with industrial policy, preferential trade agreements, customs modernization and global value-chain objectives.

Current WTO evidence shows that India's applied tariff structure remains significant, with substantial differences between simple averages, trade-weighted rates, bound commitments and effective applied rates. These distinctions are essential for understanding the actual incidence of protection.

The future effectiveness of India's tariff policy will depend on its ability to balance domestic industrial development with consumer welfare, productive input costs, export competitiveness and international integration. A predictable, transparent and evidence-based tariff regime—supported by efficient customs administration and effective trade agreements—can provide a stronger foundation for sustainable participation in international commerce.

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