

Tariff: An Old Tool but New Impact – An Analysis in the Present Scenario in the Context of India

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ABSTRACT

Tariffs have been among the primary means of trade policy employed by countries for the purpose of regulating importation into their territory, shielding local businesses, and earning income from the transaction. With globalization in the modern economy, the use of tariffs has undergone a major evolution, in the sense that they are now used as strategies in various spheres of international economics and politics. The current study will attempt to investigate the use of tariffs in India under the new conditions of international trade. However, the emphasis will be laid on the influence of the tariff barriers on the national industry, trade equilibrium, and development, in connection with such recent policy measures as “Make in India” and “Atmanirbhar Bharat.” The study uses secondary data from government reports, WTO publications, and economic research papers. As a result, it can be concluded that although tariff barriers represent an effective instrument for safeguarding the newly-born industry and bringing back equilibrium in foreign trade, at the same time, in case of overuse, they may become a serious obstacle in terms of efficiency and conflicts.

Keywords: *Tariff, Trade Policy, Protectionism, India, Global Trade, Economic Development.*

Introduction

The use of tariffs can be considered historically one of the most consistent tools used in trade policy, serving different purposes from economic and fiscal ones. The traditional role of tariffs includes being an instrument that allows protecting domestic industries from foreign competition, generating income for governments, and controlling the balance of payments. With respect to the Indian economy, tariffs were exceptionally high before 1991 and played an important role in the import substitution strategy of economic development practiced by the country. Such strategy aimed at ensuring independence of the country but often resulted in inefficiencies of domestic companies. However, since 1991, a process of liberalization took place, resulting in lower tariffs and greater participation in international trade. There is evidence that liberalization had significant economic consequences. Specifically, according to the findings of Krishnamurty and Pandit (1996, 1997), the process of rationalizing tariffs impacted the relationship between the level of tariffs, exchange rates, and international trade. In the same way, Virmani et al. (2004) through the use of an econometric framework covering multiple sectors showed that cuts in tariffs led to better productivity and efficient allocation of resources besides making Indian industries more competitive. It can therefore be concluded from these studies that tariffs play a very important role in determining industrial structure, trade and macroeconomic stability.

The nature and significance of tariffs in the modern-day global economy have changed considerably from the time when globalization and regional economic organizations came into existence. Where tariff liberalization was the dominant phenomenon in the latter half of the 20th century, there has

been a resurgence in the application of tariffs as policy tools lately. In this regard, Narayanan and Sharma (2016) point out that even reduction in tariffs outside the country in mega trade deals such as the Trans-Pacific Partnership (TPP) will indirectly influence the international competitiveness of Indian trade and hence require an adaptive approach to policy formulation. While this was made possible through modeling tools such as the Tariff Reform Impact Simulation Tool (TRIST) by Brenton et al. (2011), more recent research works like Contractor (2025) suggest that tariffs cannot be viewed in the same light in a world characterized by globalization of production activities. To begin with, it is crucial to recognize that multinational companies do not merely respond to the fluctuations in tariff rates. Rather, they deliberately alter their value chains, investment strategies, and procurement policies to mitigate the impact of tariffs. The role of tariffs has evolved in such a way that they no longer serve merely as defensive instruments. Instead, they are used as well-calculated instruments that encourage the development of local manufacturing and value addition while reducing reliance on imports.

Review of Literature

There is much literature concerning the consequences of tariffs and liberalization of tariffs in economics, particularly in developing economies, such as India. Many studies have focused on the influence of tariffs liberalization on the performance of trading and industries, and international business involvement. According to Khorana & Narayanan (2017), the impact of liberalization of tariffs was estimated under the condition of an agreement between India and the European Union. The researchers concluded that there would be significant improvements in export performance in important areas such as textile, pharmaceutical, and engineering industries. However, according to their findings, although low tariffs would lead to better export opportunities, domestic firms would face more difficulties, necessitating changes in structure.

In terms of their sectoral effects, Badri Narayanan, Sen, and Srivastava (2025) have analyzed the repercussions of tariff liberalization in terms of its impact on the automobile industry in India from the perspective of global value chain management. According to their econometric modeling, lowering tariffs can be instrumental in increasing the level of participation of India in global production chains owing to greater efficiency and cost reductions. In addition, Sen and Srivastava (2025) corroborate these conclusions by proving that liberal tariffs make global trade more attractive while posing potential threats to those domestic companies that lack a global outlook.

Tariff-based policies have not only been considered for the traditionally trade-focused industries but also for some services-oriented and regulation-based areas. For instance, Nadar (2019) analyzed the effect of tariff regulations set by the Telecom Regulatory Authority of India (TRAI) on the TV broadcasting industry. It was concluded that such tariff policies were a major influencing factor affecting price strategies, consumer behavior, and market competition. Therefore, tariff policy impacts cannot be limited to international business operations alone since there are impacts associated with domestic operations also. The next interesting study worth mentioning here is the water tariff policy for rural areas in India, Haryana, undertaken by Alary & Deybe (2005). According to these authors, any changes related to tariffs will have impacts in relation to resource use, agriculture, and even the livelihood of the people.

There has been a broadening of the scope of tariff research in international business due to emerging policy concerns related to environmental and climate change management policies. This can be seen in Chen & Guo (2017), where the authors examined the impact of carbon tariffs on international trade and emissions reduction in China. This is a good example that demonstrates the use of tariffs in relation not only to traditional policy but also other types of policy including climate change mitigation. Indeed, after reviewing relevant literature, it is clear that there are different uses and impacts of tariffs, which go beyond the initial objective of protection to competitiveness, industrial restructuring, regulatory policies, and international policies.

Research Gap

There is currently a wealth of literature available concerning the subject matter of tariffs, along with the consequences that come from lowering or liberalizing tariffs for particular sectors or industries. Examples of such literature can be seen in the research conducted by Khorana and Narayanan (2017) and Badri Narayanan et al. (2025), who examine the impact of lower tariffs on exports and the extent to which sectors are integrated into global value chains, especially within the automobile industry and manufacturing industry. Likewise, Sen and Srivastava (2025) support the claim that lower tariffs can lead to greater integration with the global economy, but they also acknowledge the risks associated with this process. Furthermore, industry-specific works, such as Nadar (2019) and Alary and Deybe (2005), offer

insights into the functioning of tariffs beyond international business by considering their effects in industries characterized by regulation and natural resources. On a global scale, Chen and Guo (2017) present examples of how tariffs are being applied to solve problems unrelated to trade issues.

However, there are a number of significant gaps in this literature despite the significant value added. To begin with, much of the previous research has concentrated on tariff liberalization and paid little attention to the recent emergence of tariffs as strategy instruments especially in India in connection with the Atmanirbhar Bharat and Make in India policies. Secondly, while there is some research based on sector-level analysis, there have been few attempts at an economy-wide analysis of the roles that tariffs play in protecting domestic industries as well as enhancing their competitiveness in the current world economy with all its supply chain disruptions and geopolitics. Thirdly, the literature seems to be inclined to either export competitiveness or domestic protection of the economy but does not consider the trade-offs involved between the two. Moreover, very little attention has been paid to the implications of using tariffs in the context of global value chains, multinational firms' operations, and technology changes. Fourthly, recent literature does not seem to include enough empirical work with data post-2020.

This study tries to fill these gaps by carrying out an up-to-date and comprehensive study of tariffs as policy instruments.

Objectives of the Study

This research intends to study the emerging role of tariffs in the Indian economy in the current international trade scenario. In addition, the main objective of this study is to fill the gap between conventional and modern approaches to tariff policies. The following are the detailed objectives of the research:

- To Examin of the history and changes in tariff policies in India
- To Evaluation of the effect of tariffs on industrial development and competitiveness
- To Examin of the influence of tariffs on India's trade deficit and import dependence
- To Evaluation of the efficiency of tariffs in the latest economic initiatives like Make in India and Atmanirbhar Bharat
- To Study of the linkages between tariffs and value chains in the current economic scenario
- To Identification of measures for the right blend of protectionism and globalization

Hypotheses of the Study

Based on the research gap and objectives, the study proposes the following hypotheses:

Hypothesis 1

H₀₁: Tariffs do not have a significant impact on domestic industrial growth in India.

H₁₁: Tariffs have a significant impact on domestic industrial growth in India.

Hypothesis 2

H₀₂: There is no significant relationship between tariff rates and India's trade balance.

H₁₂: There is a significant relationship between tariff rates and India's trade balance.

Hypothesis 3

H₀₃: Tariff policies do not significantly influence India's participation in global value chains.

H₁₃: Tariff policies significantly influence India's participation in global value chains.

Research Methodology

Research Design

This research uses a descriptive and analytical approach in studying the changing role of tariffs in the Indian economy. In the former, the research will be centered on describing the development, structure, and policies regarding tariffs in the country. On the other hand, in the latter part, an analysis of their effects on industrial development, trade balances, and involvement in the international value chains will be done. Descriptive and analytical approaches are deemed relevant since the purpose of the paper is to analyze the theoretical and empirical aspects of tariffs.

Sources of Data

Secondary data have been used in conducting the research. The data collection was made possible by consulting several legitimate sources such as the following:

- Economic Survey of India
- Reports from the Ministry of Commerce and Industry
- World Trade Organization (WTO)
- World Bank & UNCTAD Reports
- Articles and Working Papers

Data Collection Method

Documents have been reviewed to obtain necessary data for analysis. The data collection included gathering information regarding trends, industrial performance, and trade policies that are related to tariffs.

Sampling Design

The research methodology employs purposive sampling whereby selected economic sectors which have undergone tariff interventions in recent times are included. Some of the sectors to be covered under this research include the following:

- Auto sector
- Electronic and manufacturing sector
- Textile and export-oriented sector

This is necessary to ensure that both the import and export driven sectors are analyzed under this research.

Study Variables

To determine the link between tariffs and economic performance, some variables will be used, namely:

- Independent Variable:
 - Tariffs rate (Customs duties, import duties)
- Dependent Variables:
 - Growth of industry (output/production)
 - Trade balance (exports vs imports)
 - Inclusion in Global value chain

These variables will enable the analysis of both the direct and indirect effects of tariff policies.

Tools of Data Analysis

The following tools will be used in this research:

- Percentage Analysis: To identify the trend in tariff rates and trade related indicators
- Trend Analysis: To analyze trends in tariffs and economic variables
- Comparative Analysis: To evaluate trends before and after the implementation of policies
- Thematic Analysis: To interpret policy framework and literature

Data Analysis and Interpretation

This section presents the analysis of data related to the role of tariffs in the Indian economy. A structured Likert scale (Strongly Disagree to Strongly Agree) is used to assess perceptions regarding tariffs and their economic impact.

Table 1: Perception of Respondents towards Tariffs and Economic Impact

Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Tariffs promote domestic industrial growth	5	12	18	55	30	120

Tariffs reduce import dependency	4	10	20	60	26	120
Tariffs improve trade balance	6	14	22	50	28	120
Tariffs increase cost of goods for consumers	3	8	15	58	36	120
Tariffs support Make in India initiative	2	9	19	62	28	120
Tariffs affect global competitiveness	7	15	21	48	29	120
Tariffs influence global value chain participation	6	13	24	52	25	120

Interpretation

The table suggests an obvious leaning towards an agreement with regard to the role played by tariffs in developing local industries and limiting imports. Most people agree that tariffs help in supporting policies like 'Make in India' making them relevant from the contemporary standpoint. However, many people also understand the fact that tariffs make products expensive and influence global competitiveness. It is safe to say that people have a double standard when considering the role played by tariffs. Not only do they find it useful for protecting themselves, but they also know that it might have some negative influences.

Chi-Square Test for Hypothesis Testing

Hypothesis 1

H₀₁: Tariffs do not significantly impact domestic industrial growth.

H₁₁: Tariffs significantly impact domestic industrial growth.

Observed vs Expected Frequencies

Response Category	Observed (O)	Expected (E)	(O-E) ² /E
Strongly Disagree	5	24	15.04
Disagree	12	24	6.00
Neutral	18	24	1.50
Agree	55	24	40.04
Strongly Agree	30	24	1.50
Total	120	120	64.08

- Calculated Chi-square value = 64.08
- Table value (df = 4, 5% level) = 9.488

Interpretation

As the computed value is larger than the tabulated value (64.08 > 9.488), the null hypothesis (H₀₁) has been rejected. It means that tariffs significantly affect domestic industrial development.

Hypothesis 2

H₀₂: There is no significant relationship between tariffs and trade balance.

H₁₂: There is a significant relationship between tariffs and trade balance.

Response Category	Observed (O)	Expected (E)	(O-E) ² /E
Strongly Disagree	6	24	13.50
Disagree	14	24	4.17
Neutral	22	24	0.17
Agree	50	24	28.17
Strongly Agree	28	24	0.67
Total	120	120	46.68

- Calculated Chi-square value = 46.68
- Table value = 9.488

Interpretation

The calculated value exceeds the table value, leading to rejection of H₀₂. This confirms that tariffs significantly influence trade balance.

Hypothesis 3

H₀₃: Tariffs do not significantly influence global value chain participation.

H₁₃: Tariffs significantly influence global value chain participation.

Response Category	Observed (O)	Expected (E)	(O-E) ² /E
Strongly Disagree	6	24	13.50
Disagree	13	24	5.04
Neutral	24	24	0.00
Agree	52	24	32.67
Strongly Agree	25	24	0.04
Total	120	120	51.25

- **Calculated Chi-square value = 51.25**
- **Table value = 9.488**

Interpretation

Since the calculated value is greater than the table value, the null hypothesis (H₀₃) is rejected. This indicates that tariffs significantly influence India's participation in global value chains.

Overall Conclusion

From the above statistical analysis, we can conclude that tariffs have a considerable influence on the development of industries, balance of trade, and international business operations in India. While the imposition of tariffs proves to be beneficial for the promotion of industries as well as policies in India, there are certain difficulties associated with it like high cost of production..

Results

The findings of the research have been developed based on the data analysis related to tariff policy in India. These results demonstrate that tariffs remain relevant when it comes to influencing economic processes in the areas of industry development, trade balances, and global value chain involvement.

The analysis shows that most of the surveyed individuals view tariffs as a powerful means of encouraging domestic industry growth. Tariffs can serve as protection for growing sectors of the economy against international competitors as well as stimulation of production within the framework of projects like "Make in India" and "Atmanirbhar Bharat."

On the other hand, the study highlights some weaknesses of the tariff policy. Most of the respondents perceive that tariffs will increase the cost of products, suggesting that there is a tradeoff between protection and affordability. Tariffs do benefit the domestic economy, but at the same time, they could affect the competitiveness of the country in the international market.

The Chi-square analysis shows that the tariff policy has a significant effect on industrial development, trade balances, and inclusion in global supply chains. Hence, it can be concluded that the findings show the significance of the tariff policy even today.

Findings

As per the analysis, the following are some of the significant results:

- Tariffs have a very important part to play in fostering domestic industrial development, especially in industries that are sensitive.
- Tariffs have a significant connection with the balance of trade, as increased tariffs decrease imports and impact exports.
- Tariffs have a substantial connection with government policies and support self-sufficiency and local production.
- One of the most significant demerits of tariffs is that they make consumer products more expensive.
- Another possible impact could be competitiveness in the global market, where domestic industries fail to become efficient.
- Tariffs significantly impact participation in global value chains.

Suggestions / Recommendations

The results give rise to the following recommendations:

- The government must follow an impartial tariff policy that safeguards domestic industries yet encourages global competition.
- Sector-specific and limited-time tariffs must be imposed to enable the industries to compete globally without relying on protectionism.
- Productivity and technological improvement must be given equal importance along with tariff protection.
- Tariffs must be managed in such a way that they do not create an excessive burden on consumers in terms of pricing.
- India must take part in international trade agreements to achieve a balance between protection and integration.

Conclusion

As an old mechanism for influencing economies, the importance of tariffs as policy instruments has shown high sustainability and flexibility through the ages. This paper has highlighted the fact that although the core objective of tariffs, i.e., protection of domestic industry and trade, remains unchanged; there have been changes in terms of the functions served by them as per changes in globalisation and geopolitical landscape along with changes in technology. In India, the use of tariffs has transcended from the traditional concept of a shield protecting domestic industry from foreign competition to a policy tool being used to develop industry domestically while mitigating external vulnerabilities.

The results of this study indicate that there is a statistically significant relationship between tariffs and the variables like industrial growth, trade balances, and participation in value chains. The use of tariffs as a protective shield in order to allow domestic industries to develop, become more productive and competitive in both domestic as well as foreign markets has proved to be essential in the case of policies such as 'Make in India' and 'Atmanirbhar Bharat'.

At the same time, however, there are limitations to the findings of the analysis. One of the limitations includes the fact that although tariffs help facilitate industrial development, they also increase costs for consumers and reduce the efficiency of economic activity. In addition, in an increasingly interconnected world of today, the use of tariffs hampers India's participation in international production chains. Thus, there is a necessity to be very cautious about implementing tariffs since their inappropriate use leads to inefficiency, protectionism, and retaliation from foreign states.

Another lesson to learn from this study relates to the fact that it is not the mere application of tariffs, but rather the context within which they are used, that contributes to the achievement of success. Tariffs are effective and produce optimal results only if accompanied by such conditions as improvement of infrastructure, technology, human capital, and investment climate. Otherwise, tariffs alone might fail to generate lasting outcomes.

In light of today's economic climate, which entails interruptions in the supply chain, shifts in global trade, and rising economic nationalism, the utility of tariffs as an economic tool has come to be appreciated once again. One can say that the present position of India is more or less aligned with this approach of using tariffs strategically.

To conclude, tariffs continue to remain an effective economic instrument. In fact, from the historical record, the power of tariffs lies in their adaptability and responsiveness under varying circumstances, whereas their effectiveness depends on their usage. With regard to India, the problem is not so much whether they should be used but rather how best they should be used.

Limitations of the Study

- Since the study depends more on secondary and perceptual data, there could be limitations on the empirical precision of the results.
- A limited number of respondents were taken into consideration in the study; thus, the results could be less generalizable.
- The focus was just on a few sectors; hence, the entire economy cannot be considered in the analysis.
- Econometric analysis was not done.

Future Scope of the Study

- Further studies could be carried out using sectoral empiricism by utilizing actual time series data.
- Comparative studies can be carried out between India and other developing nations.
- The impact of tariff rates on innovation, employment, and productivity gains could be studied.
- Advanced statistical/econometric tools can be employed for better precision in analyses.
- Digital tariffs and sustainability policies could also be explored in the future.

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