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INDIA'S TRADE AND TARIFF POLICY SYSTEM IN CONSONANCE TO THE WORLD SCENARIO

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ABSTRACT

Necessity is the mother of invention holds true when one country wants to trade with another country to fulfil its requirements in which it is facing eighter non availability or insufficient such supply of products services and technologies. This imbalance is compelling nations to invite trade relations with other countries to find markets for their products, resources, services, and technologies in which they have a surplus or a stronghold in some areas. This strategy not only earns foreign exchange but also improves the standard of living of its citizens. The introduction of the internet has made the entire world a single market.

The trade balance of foreign trade is favourable for few countries, while many are experiencing a negative balance. This imbalance is the root cause of unrest all over the world. Sometimes this causes world trade wars, as seen between countries like America's Super 301 sanctions in 1974 and 1988, and its attacks on Venezuela, Canada, Russia, Iran, China, and India in the recent past to overcome negative trade balances. Many such incidents are happening for want of trade-related domination.

India, as a member of GATT since its inception and also as a member of the WTO, has always fought for its own rights and acted as a leader of developing countries in relation to global trade. India's trade and tariff policy is ever-changing to combat the tariff policies of Europe, the U.S.A., and other countries to protect its citizens' interests and their standard of living. India is now designing its trade policy and tariff policy to spread wide over to cover new countries with priorities and not allowing domination of any country on it in trade-related issues and interests.

Keywords

GATT, WTO, Consonance, Scenario, Tariff Policy, Trade Policy.

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1. Introduction

"Necessity is the mother of invention" holds true when one country wants to trade with another country to fulfil its requirements in areas where it faces either non-availability or insufficient supply of products, services, and technologies. This imbalance compels nations to invite and establish trade relations with other countries to find markets for their own products, services, and technologies in which they possess a surplus or a stronghold. This strategy not only earns foreign exchange but also improves the standard of living of its citizens. The introduction of the internet has truly transformed the entire world into a single market.

The trade balance across all countries is not uniform. In many cases, a few countries are stronger in manufacturing high-quality products and applying the latest technologies, which gives them an edge over others. This rule applies to all sectors of the economy—be it primary, secondary, or tertiary. For instance, China and Japan consistently maintain a surplus trade balance with the U.S.A. due to their low cost of production combined with good quality.

Conversely, India has historically faced a negative trade balance with oil-advancing nations. A continuous tendency favoring imports over exports can severely hamper a developing nation's economy. The rules governing trade equilibrium directly influence international trade. Hence, global trade negotiations are vital.

As member countries recognized the critical need for a centralized platform to resolve trade-related disparities and disputes, collective efforts led to the establishment of **GATT (General Agreement on Tariffs and Trade)** in 1948, which later transitioned into the **World Trade Organization (WTO)** in 1995.

India is a founder member of GATT, holding membership since its inception in 1948. However, GATT was frequently unable to resolve complex trade disputes arising from rapid technological advancements and changing production paradigms. Arthur Dunkel was the key individual behind forging a consensus to establish the WTO. After numerous rounds of intensive negotiations (popularly known as the Uruguay Round talks), GATT members finalized the agreement establishing the WTO in 1995. India signed the agreement in the same year but was granted a decade-long transition window for the proper implementation of the WTO pact in its true spirit.

2. Objectives of the Study:

- To study global changes in trade and tariff policies.
- To study India's role in international trade and tariff issues.
- To study the tariff policy of India in consonance with global changes.
- To study the impact of India's tariff policy on foreign trade.
- To study India's role in shaping foreign trade policy according to changing global needs.

3. Need / Relevance of the Study:

The Balance of Payments (BoP) is a direct reflection of the value of a nation's imports relative to its exports. A key element driving this process is the country's tariff policy. Low tariffs make a country's goods and services cheaper compared to a nation that enforces high tariff rates. Trade agreements between nations serve to pacify and regulate the impact of tariffs on import and export volumes.

Thus, tariff policy plays a crucial role in deciding a country's position in global trade. Every country designs a reciprocal tariff policy to safeguard its domestic markets from being invaded by foreign products. Therefore, studying tariff policies is essential to comprehending the broader global trade scenario.

4. Scope of the Study:

The study covers India's trade and tariff policies with its international trade counterpart countries. It examines how increases or decreases in tariffs must remain in consonance with the tariff architectures of trade counterparties. India's trade policy changes dynamically in response to the shifting tariff dynamics of its business partners.

5. Limitations of the Study:

Foreign trade is influenced by numerous distinct variables such as quality, pricing, packaging, and customer relationships. However, this study isolates and concentrates strictly on the **Tariff Policy** of the country against its business counterparties, assuming that all other variables remain constant (*ceteris paribus*). The study does not focus on shifting customer priorities or consumer behavior. Additionally, due to time and financial constraints, the study depends entirely on secondary data.

6. Data Sources:

The study depends solely on secondary data collected from electronic media, print media, and published literature available within this research domain. No primary data was gathered for this study.

7. Review of Literature:

Historically, India's tariff policy can be characterized as highly protectionist, originally designed to ensure the survival of domestic manufacturing industries against dominant Western corporations. This protective stance was maintained heavily up until 1990. More than two centuries of British rule had severely ruined domestic industrial units across all aspects. Keeping this pathetic situation in mind during the late 1940s, the Government of India adopted a protectionist framework to revive indigenous manufacturing units.

As a result, the industrial licensing policy imposed stringent restrictions on the entry of foreign companies into the Indian market. Importing goods from abroad was highly discouraged through steep customs duties. Government legislation such as the **MRTP Act** (Monopolies and Restrictive Trade Practices Act), **FERA** (Foreign Exchange Regulation Act), and **COFEPOSA** were enacted to strictly regulate foreign corporate entry, with severe penalties tied to violations.

The launching of **LPG (Liberalization, Privatization, and Globalization)** in 1991 altered the entire landscape of the Indian market. Previously, the slow "Hindu rate of growth" of GDP (under 4.0%) had hampered the economic interests of Indian citizens and the country as a whole. Rising unemployment and widespread poverty forced policymakers to rethink their stance.

Consequently, the leadership under then-Prime Minister Late Sri P.V. Narasimha Rao and then-Finance Minister Late Sri Manmohan Singh took the bold step of aligning with the WTO pact. Rigid foreign trade legislations were systematically diluted: FERA was replaced by **FEMA** (Foreign Exchange Management Act), the MRTP Act was converted into the **Competition Act**, and the insurance sector was opened via the **IRDA Act**.

These structural changes injected fresh energy into India's manufacturing sector. Customs duties were slashed to a baseline minimum average of 20% on imported goods (varying by category). Foreign Direct Investment (FDI) inflows touched historic highs, and foreign exchange reserves with the RBI expanded dramatically. The GDP demonstrated a consistent growth rate of over 6.5% for more than a decade—a trend continuing firmly into the **2025–26 financial year**. Even amid global challenges like the US-China trade tensions, India's export-driven economic indicators have proven resilient. Alongside tariff overhauls, national tax policies underwent drastic updates to reinforce this sustained economic expansion.

8. India's Trade Policy as a Member of GATT / WTO:

As an active member of GATT/WTO, India has consistently updated its tariff and trade architectures to align with global shifts. until 1990, the protectionist approach kept India's growth rate below the global GDP average. Recognizing the need for integration, the government transitioned to the WTO framework from 1995, utilizing a 10-year implementation window (extending to 2005) to systematically introduce **TRIPS** (Trade-Related Aspects of Intellectual Property Rights) and **TRIMS** (Trade-Related Investment Measures).

Despite initial domestic anxieties regarding the WTO pact, the policy shifts enabled Indian companies to successfully capture global market share. Today, India has emerged as the **5th largest economy** in the world and is projected to secure the **3rd position by 2030**. Western markets now actively contend with India's growing dominance in the global trade arena.

9. Structural Changes in India's Trade Policy in Relation to Global Changes:

Being a founder member of GATT, India has mirrored international structural shifts by moving away from restrictive trade environments toward globally accepted open-market policies. This has facilitated the smooth movement of goods and services across borders under simplified trade conditions among fellow WTO members.

Key structural changes executed by the Government of India include:

- **Industrial Licensing & Anti-Monopoly Overhauls:** Transitioning the MRTP Act into the modern Competition Act.
- **Foreign Exchange Deregulation:** Replacing FERA with the market-friendly FEMA.
- **Strategic Sector Liberalization:** Opening doors to the insurance sector (via IRDA) and allowing private and global participation in previously reserved areas like Small Scale Industries (SSIs), Public Sector Undertakings (PSUs), infrastructure, and defence.
- **Regional Trade Integration:** Signing critical regional pacts and bilateral trade agreements such as **SAPTA**, **ASEAN**, **G-20**, and agreements with the **EEC**.

Through these transformations, India successfully shifted from its historical low growth baseline to a world-class competitive GDP growth rate exceeding 6% annually. The economy has rapidly transitioned from an agro-based setup toward a highly developed, self-reliant, and self-sustained industrial and service powerhouse.

Economic Profile At a Glance:

- **Global Ranking:** 5th largest economy by nominal GDP; 3rd largest by Purchasing Power Parity (PPP).
- **Current Economic Size:** Valued at approximately **$3.9 trillion**, positioned directly behind the USA, China, Germany, and Japan.
- **Growth Outlook:** Maintaining a consistent growth trajectory pointing securely toward a **$5 trillion economy** milestone by 2030.

10. Global Trade War and Tariff War Scenario:

While the WTO champions open trade under the vision of the world as a single marketplace, the contemporary global reality often paints a different picture. Developed nations have frequently retreated from open-market principles, returning to protectionist barriers and restrictive tariffs to insulate their domestic markets.

Interestingly, developing countries like India, China, and the ASEAN bloc have reaped significant benefits from the WTO framework, contrary to early predictions that the pact would only favor Western economies. The Arthur Dunkel proposals helped agile economies find footing worldwide due to extreme cost-efficiency and improving product quality.

In response, developed countries began deploying defensive tools. Trade sanctions, such as America's unilateral measures and restrictions placed on countries trading with specific Middle Eastern or Latin American nations, illustrate this protective friction. To insulate their own domestic industrial ecosystems, nations like India and China have been forced to implement counter-protective restrictions.

This ongoing international trade and tariff war leaves under-developed and developing nations highly vulnerable. For example, geopolitical friction affecting crucial trade chokepoints like the **Strait of Hormuz** directly triggers global supply shocks in crude oil, driving inflation upward and disrupting GDP growth rates worldwide. For India to securely scale to its upfront target of a thriving $5 trillion economy, global geopolitical stability and maritime peace remain absolute prerequisites.

11. India's Strategies to Combat Trade and Tariff Wars:

As a sovereign country, India keeps its strategic options open to combat volatile tariff shifts initiated by major global actors like the USA, the EU, or China. Key strategies include:

- **Reciprocal Counter-Tariffs:** Imposing balanced, reciprocal tariffs to defend domestic industries from dumping.
- **Diversifying Trade Alliances:** Seeking alternative trade partners and entering exclusive bilateral trade pacts (e.g., strategic trade relationships with Saudi Arabia, UAE, and various resource-rich nations).
- **Alternative Market Routing:** Diverting essential food exports, such as rice shipments to Africa, to navigate evolving tariff boundaries.
- **Strategic Energy Autonomy:** Developing alternative, self-reliant energy pathways to break free from the vulnerabilities of dollar-denominated oil chokepoints. This includes heavy state subsidies for large-scale **Solar Energy** installations and cutting-edge **Hydrogen Fuel** infrastructure aimed at complete self-reliance.

12. India's Position in World Trade in the 21st Century:

India is rapidly expanding its footprint across both merchandise and service frameworks globally.

- **Global Trade Rankings:** Ranks **18th** globally in merchandise exports and **10th** in commercial service exports.
- **Market Share:** Commands **4.3%** of global service trade, expanding rapidly within digital and IT service sectors (where it ranks **5th**).

- **Primary Export Partners:** United States, United Arab Emirates, Netherlands, and China.
- **Primary Import Partners:** China, Russia, USA, and UAE.

Core Trade Portfolio:

Major Exports	**Major Imports**
Refined Petroleum	Crude Oil
Telecommunications Equipment & Telephones	Uncut Diamonds & Precious Stones
Medicaments & Vaccines	Edible Oils
Diamonds, Polished Gems & Jewellery	Electronic Components
IT, Software Services & BPO Services	Fertilizers & Heavy Chemical Materials
Digital Financial Services & Engineering Goods	Raw Engineering Materials

India remains a vital growth engine for South Asia, contributing roughly 15% to global economic output. Its systemic integration with the global economy is irreversible. This was starkly demonstrated during the COVID-19 pandemic, where India's massive pharmaceutical infrastructure supplied **60% of the world's vaccine capacity**. Breakthrough collaborations yielded global lifelines like **Covaxin** (developed by Bharat Biotech in collaboration with the Indian Council of Medical Research - ICMR) and **Covishield** (manufactured by the Serum Institute of India - SII via the Oxford-AstraZeneca partnership), cementing India's role as an indispensable global asset.

13. Conclusion:

India's prominence in global trade and tariff negotiations is accelerating annually. National trade policy is undergoing a profound sea change, constantly being reformulated to counter volatile global environments and unilateral sanctions.

Major global economic entities can no longer afford to isolate or threaten India with restrictive policies. India possesses a massive consumer base of **150 crore people**, featuring a robust middle class of **45 crore individuals (30% of the population)**. Ongoing structural reforms are projected to expand this middle-class bracket to encompass **between 50% and 60%** of the total population in the coming years.

This unparalleled domestic market size exceeds the entire population of multiple developed nations combined. Consequently, external trade blocks cannot easily dictate terms to India. In light of protectionist trends emerging from various global quarters, India’s leadership is successfully designing forward-looking, self-reliant frameworks to ensure the nation remains secure, resilient, and economically independent.

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