Indian Economy · GS - III

Evaluate the effectiveness of customs duty rationalisation as a tool for controlling inflation in an import-dependent economy like India.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 25/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Tariff rationalisation, imported inflation, cost-push pressures, domestic producers, fiscal implications, supply-chain resilience

Model Answer

Customs duties influence the domestic prices of imported goods and production inputs. Their rationalisation can therefore serve as a short-term instrument of inflation management, particularly when domestic markets depend heavily on imports.

How duty reductions can moderate inflation

1. **Lower import prices:** Reduced duties on edible oils and pulses can make imported commodities cheaper, easing food inflation.
2. **Reduced production costs:** Cheaper imported intermediate goods, fertilisers and industrial raw materials can moderate cost-push inflation.
3. **Improved supply availability:** Lower import barriers can expand domestic market supplies when domestic production is insufficient.

Limitations and trade-offs

1. **Domestic producer interests:** Sudden tariff reductions may expose farmers and domestic manufacturers to cheaper imports, affecting their incomes and competitiveness.
2. **Incomplete price transmission:** Importers and intermediaries may retain part of the tax benefit instead of passing it to consumers.
3. **External vulnerability:** Greater import dependence can expose India to global price fluctuations, currency depreciation and supply disruptions.
4. **Fiscal costs:** Lower customs collections can reduce government revenue.

A calibrated approach

Customs duty changes should be targeted, temporary where appropriate and periodically reviewed. They must be coordinated with buffer-stock management, domestic production incentives, competition enforcement and diversified import sources.

Thus, tariff rationalisation can provide short-term relief from imported and input-cost inflation, but durable price stability requires stronger domestic supply capacity and resilient supply chains.

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