



# A Study on Impact of Import Duties on Inflation in India

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## Abstract

Import duties play an important role in shaping a country's trade policies by controlling the flow of goods across borders, supporting domestic industries, and generating revenue for the government. Beyond these functions, they also have a significant impact on inflation and overall price stability within the economy. This study explores how changes in import duties influence inflation in India, using secondary data covering the period from 2018 to 2023.

The analysis reveals that an increase in import duties leads to a rise in the cost of imported goods and essential production inputs. These higher costs are often passed on to consumers, resulting in increased prices and contributing to inflation through a cost-push effect. At the same time, higher import duties can promote domestic production and reduce reliance on foreign goods. The study concludes that although import duties can strengthen local industries, they need to be implemented carefully to prevent excessive inflation.

**Keywords:** Import Duties, Inflation, India, Trade Policy, Cost-Push Inflation, Price Stability



## Introduction

Inflation refers to a sustained increase in the general price level of goods and services over time, reducing the purchasing power of money. In a developing economy like India, inflation is influenced by both domestic and international factors. One of the major external factors affecting inflation is international trade, particularly imports.

India relies heavily on imports for essential commodities such as crude oil, machinery, and electronic components. Import duties, also known as tariffs, are taxes imposed on these imports to regulate trade and protect domestic industries. While such policies promote self-reliance and industrial growth, they also increase the cost of imported goods.

When import duties rise, the cost of imported inputs increases, leading to higher production costs. These costs are often passed on to consumers, resulting in higher prices and inflation. Therefore, understanding the relationship between import duties and inflation is crucial for effective economic policymaking.

## Review of Literature

The relationship between trade policies and inflation has been widely studied in economic literature. According to studies by the Reserve Bank of India, inflation in India is influenced by both demand-side and supply-side factors, including imported inflation through global commodity prices.

Research by the International Monetary Fund highlights that developing economies are more vulnerable to imported inflation due to their reliance on global markets. Similarly, the World Bank emphasises that imports can have a dual effect—reducing inflation by increasing supply and increasing inflation when global prices rise.

Economists such as Jagdish Bhagwati argue that trade liberalisation can reduce price pressures by improving supply conditions, whereas higher tariffs can lead to inflation by increasing costs. However, there is limited research focusing specifically on the direct impact of import duties on inflation in India, which this study aims to address.

## Research Problem

Inflation is a major concern in India, affecting both consumers and businesses. At the same time, the government uses import duties to regulate trade and support domestic industries. However, changes in import duties can increase the cost of imports, which may lead to higher production costs and rising prices.

Since India depends heavily on imported goods, it is important to understand whether import duties contribute to inflation. Therefore, this study focuses on examining the relationship between import duties and inflation in the Indian economy.

## Objectives

The study was conducted with the following objectives:

1. To study inflation in india
2. To study imports done by india
3. To analyze the effect of import duties in Indian economy



## Conceptual Background

The conceptual basis of this study focuses on the relationship between inflation and import duties. Inflation can be understood as a continuous increase in the overall prices of goods and services, which gradually reduces the value of money. Import duties, on the other hand, are taxes charged by the government on goods purchased from other countries. These duties are mainly used to control the flow of imports, support local industries, and generate government revenue.

In the Indian context, imports play a crucial role because the country depends on foreign goods such as crude oil, machinery, and industrial inputs. Any change in import duties directly affects the cost of these goods. When duties are increased, imported products become more expensive. This raises the cost of production for industries that rely on imported inputs, making it more costly to produce goods.

As production costs increase, businesses usually pass these costs on to consumers through higher prices, which contributes to inflation. This is known as cost-push inflation. Although import duties can help strengthen domestic industries by reducing reliance on foreign goods, excessive increases in tariffs may lead to higher prices in the economy. Therefore, it is important to maintain a careful balance between protecting domestic industries and controlling inflation.

## Research Methodology

The present study is based on secondary data to examine the relationship between import duties and inflation in India. Relevant data has been collected from reliable and authentic sources such as reports of the Reserve Bank of India, World Bank, Ministry of Finance, and other government publications. The study covers a time period from 2018 to 2023, which allows for the analysis of recent trends and policy changes.

A descriptive and analytical research design has been adopted to understand the behaviour of key variables such as inflation, imports, and import duties. The collected data has been organised and analysed using simple statistical tools such as tables, charts, and trend analysis to identify patterns and relationships over time. Comparative analysis has also been used to examine how changes in import duties correspond with changes in inflation.

Since the study relies entirely on secondary data, it focuses on interpreting existing information rather than collecting primary data. Although this approach ensures reliability and consistency, it may have certain limitations related to data availability and external economic factors. Overall, the methodology provides a structured framework to analyse the impact of import duties on inflation in the Indian economy.

## Sampling and Instrumentation

This study is based on secondary data, so traditional sampling methods are not used. Instead, a time-series approach has been adopted, where data from 2018 to 2023 is selected to analyse recent trends in inflation, imports, and import duties in India. The data has been collected from reliable sources such as the Reserve Bank of India, World Bank, and Ministry of Finance to ensure accuracy and consistency. Since no primary data is involved, the study relies on analytical tools like tables, graphs, and trend analysis to interpret the data and identify patterns over time.



## Sampling

The study is based entirely on secondary data collected from reliable and authoritative sources. A time-series approach has been adopted, covering the period from 2018 to 2023, in order to capture recent trends and variations in inflation, imports, and import duties. The data has been carefully selected from credible institutions such as government reports and international databases to ensure accuracy, consistency, and reliability of the analysis.

## Instrumentation

No physical instruments were used in the present study, as the research is based on secondary data analysis. Instead, analytical tools such as tables and charts have been utilised to organise and present the data in a clear and systematic manner. Furthermore, techniques like trend analysis and comparative analysis have been applied to interpret the data effectively and to identify patterns and relationships between import duties and inflation.

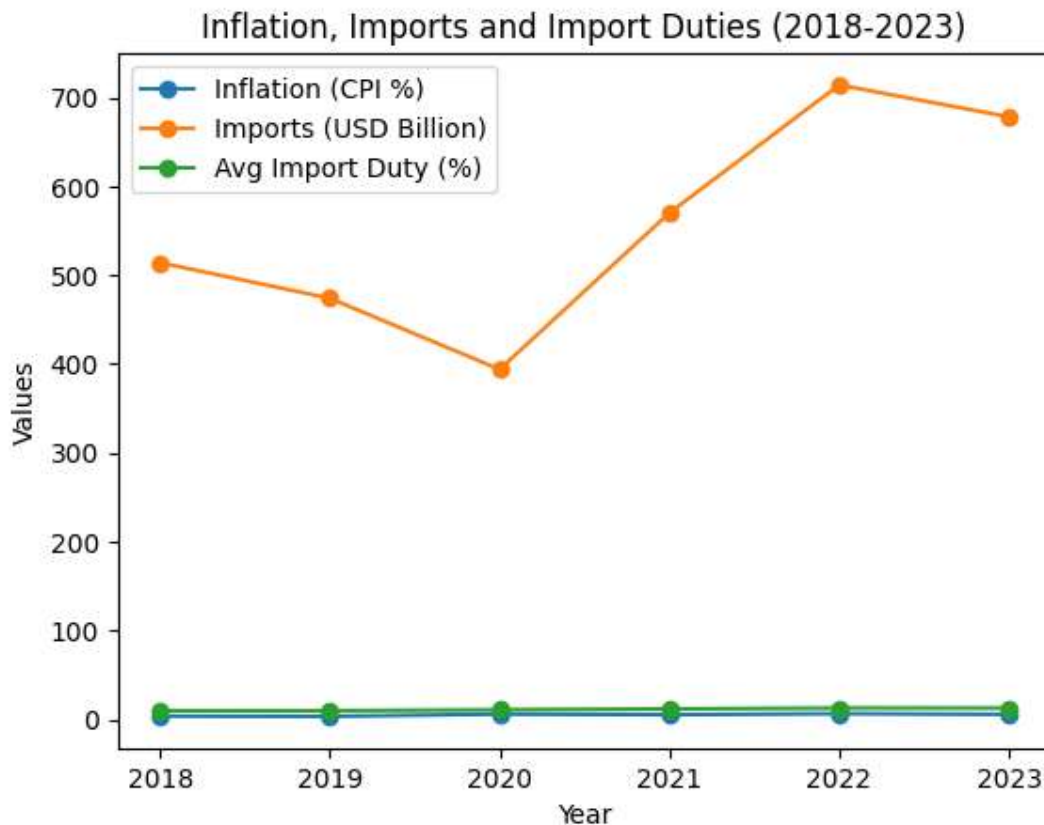
## Data Analyses and Interpretation

### Year-wise Data of Inflation, Imports, and Import Duties in India (2018–2023)

Year	Inflation (%)	Imports (USD Billion)	Import Duty (%)
2018	3.9	514	10
2019	3.7	474	10
2020	6.2	394	11
2021	5.5	570	12
2022	6.7	714	13
2023	5.9	678	13



## Trend of Inflation, Imports, and Import Duties in India (2018–2023)



### Key Observations

- Inflation remained stable in 2018–2019
- Sharp rise in 2020 due to COVID-19 disruptions
- Import duties increased steadily from 10% to 13%
- Higher duties coincided with higher inflation

### Interpretation

The data shows a **positive relationship between import duties and inflation**. As import duties increased, the cost of imported goods rose, leading to higher production costs and increased prices.

This confirms the presence of **cost-push inflation**, where rising input costs lead to higher price levels.

### Findings of the Study

Import duties play an important role in shaping production costs within an economy. Many industries depend on imported raw materials, machinery, and intermediate goods to carry out their operations. When the government increases import duties, the cost of these inputs rises. This makes production more expensive for businesses, especially those that rely heavily on foreign supplies. As a result, companies face higher operating costs, which directly affects their pricing and profitability.

These increased production costs are usually transferred to consumers in the form of higher prices. Businesses adjust their pricing strategies to maintain margins, leading to an overall rise in the cost of goods and services. This process contributes to inflation, particularly through what economists describe as cost-



push inflation. In simple terms, when it becomes more expensive to produce goods, the final prices in the market also increase.

At the same time, imports serve a dual purpose in the economy. On one hand, they help maintain price stability by ensuring a steady supply of goods. When domestic production is insufficient to meet demand, imports fill the gap and prevent sharp price increases. This is especially important for essential commodities. On the other hand, imports can also bring inflation from global markets into the domestic economy. If international prices of goods rise, the cost of importing them increases, which then affects domestic prices as well.

Therefore, inflation is influenced by a combination of both internal and external factors. Domestic policies such as import duties play a significant role, but global conditions like commodity prices, exchange rate movements, and international trade dynamics are equally important. This makes inflation a complex phenomenon that cannot be explained by a single factor alone, but rather by the interaction of multiple economic forces.

## Discussions

The findings of the study clearly support the theory of **cost-push inflation**, which explains that an increase in input costs leads to a rise in overall price levels. When import duties are increased, the cost of imported raw materials and intermediate goods also rises. Since many industries depend on these imports, their production costs increase, and businesses often pass these additional costs on to consumers. As a result, the general price level in the economy rises, contributing to inflation.

At the same time, import duties play a protective role in the economy. By making imported goods more expensive, they encourage consumers and producers to shift towards domestically produced goods. This helps promote local industries, supports domestic production, and contributes to industrial growth. In this way, import duties serve as an important tool for economic development and self-reliance.

However, this creates a clear policy trade-off. Higher import duties can stimulate industrial growth by protecting domestic industries, but they can also lead to increased production costs and higher consumer prices, thereby contributing to inflation.

Therefore, policymakers must carefully balance these outcomes. While it is important to promote domestic industries and reduce dependence on imports, it is equally essential to maintain price stability and protect consumers from rising costs. A well-calibrated trade policy is necessary to achieve both economic growth and controlled inflation.

## Conclusion

The study concludes that import duties play a significant role in influencing inflation in India, primarily through their impact on production costs. When import duties are increased, the cost of imported raw materials and intermediate goods rises, which increases overall production expenses for businesses. These higher costs are typically passed on to consumers in the form of increased prices, thereby contributing to inflation.

However, inflation is not determined by import duties alone. It is also shaped by various global factors such as fluctuations in crude oil prices, exchange rate movements, and international market conditions. These external influences can amplify or reduce inflationary pressures within the economy, making inflation a complex and multi-dimensional phenomenon.



Therefore, import duties should be implemented with careful consideration. Policymakers need to strike a balance between promoting domestic industries and maintaining price stability. A well-planned and moderate approach to tariff policies can help achieve sustainable economic growth without creating excessive inflationary pressure.

## Recommendations

Import duties should be maintained at a balanced level so that they provide adequate protection to domestic industries without leading to unnecessary increases in prices. Excessively high tariffs may benefit local producers in the short term, but they can also raise production costs and reduce consumer welfare. Therefore, a moderate and well-calibrated approach is essential.

Reducing tariff rates on essential goods is another important step toward controlling inflation. Lower duties on key inputs such as raw materials, fuel, and machinery can help decrease production costs for businesses. This, in turn, can lead to more stable prices in the market and reduce the financial burden on consumers.

At the same time, it is important to strengthen the efficiency and competitiveness of domestic industries. By improving technology, productivity, and infrastructure, domestic firms can reduce their reliance on imported inputs and compete more effectively in both local and global markets. This will help create a more self-sustaining economy in the long run.

Policymakers should also continuously monitor global price trends and economic developments. Since inflation in India is influenced by international factors such as commodity prices and exchange rates, timely policy adjustments are necessary to respond to changing global conditions.

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