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Dipping Reliance on Customs' Revenue: A Boost to India's Quest for Negotiating Trade Deals

Tariff jitters have been regularly making headlines in business media over the recent past all over the world. India has been no different with people fearing the worst in these uncertain times. However, India has significantly reduced its reliance on customs duties as a source of tax revenue. From contributing over one-

third of the Union government's gross tax revenue in the late 1980s, customs duties now account for just over 6% of revenue as per the 2026-27 Budget Estimates. This shift reflects a strategic policy move toward trade liberalization, improved domestic tax systems (like GST), and a growing focus on industrial competitiveness rather than revenue protection. India's calibrated tariff reductions, alongside a surge in Free Trade Agreements (FTAs), position it to engage in offering tariff concessions during trade negotiations without jeopardizing fiscal stability. It also shifts the role of tariffs from revenue generation to regulatory oversight and strategic protection. Supported by PLI schemes, infrastructure development, and digital trade facilitation, India is now better equipped to absorb liberalization shocks and leverage global markets to fuel its growth ambitions.

Introduction

Customs duties and tariffs have long been at the heart of global economic discourse. Traditionally viewed as both a revenue tool and a protective measure, their role has evolved significantly, particularly in emerging economies like India. Over the past four decades, India has seen a sharp decline in its reliance on customs revenue as a proportion of total tax income- a transformation that carries significant implications for trade policy, fiscal planning, and industrial strategy.

As geopolitical tensions and economic nationalism rise - typified by the United States' hardened trade posture - countries are re-evaluating their trade architectures. India, with its calibrated reduction in import tariffs and an increasing array of

Free Trade Agreements (FTAs), finds itself in a unique position. The reduced dependency on customs revenue allows it to negotiate trade deals with less fiscal risk, strengthening its global economic positioning.

The Dual Role of Customs Duties

Customs duties serve two essential roles in a country's economy:

- 1. Revenue Generation:** Especially in developing countries, customs duties have historically been a significant contributor to government revenue. Before the full development of robust domestic taxation mechanisms like GST or comprehensive income tax structures, customs duties were relatively easy to

collect and provided a steady stream of funds.

- 2. Protective Barrier:** Beyond revenue, tariffs act as a protective shield for domestic industries, offering insulation from foreign competition. By imposing duties on imported goods, governments can incentivize local production, preserve employment, and nurture infant industries.

India has traditionally balanced these roles with care, but the balance has been shifting in recent years - from revenue generation toward regulatory and strategic use.

The Long Arc: Four Decades of Declining Customs Revenue Share

India's customs revenue, once a dominant contributor to the Union

government's tax kitty, has seen a dramatic fall in its share of gross tax revenue over the past four decades. In 1980-81, customs revenue accounted for 25.87% of the Union's gross tax revenue, driven by high import duties and a relatively closed economy.

However, according to official data, customs duties will account for around 6% of the government's total gross tax revenue in the 2026-27 Budget Estimate (BE) - a sharp decline from 36.38% in 1987-88, the highest recorded share.

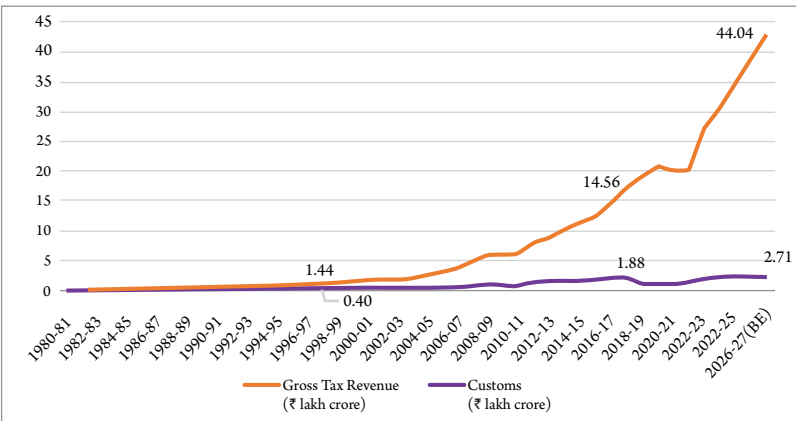
To put things into perspective, while gross tax revenue has jumped from 14 lakh crore in 2015-16 to north of 44 lakh crore in 2026-27, custom duty has barely increased, remaining in range of 2 to 2.5 lakh crore in last 10 years as depicted in the table below.

Financial Year	Gross Tax Revenue (₹ lakh crore)	Customs (₹ lakh crore)	Share in Total Tax revenue of the Union
1980-81	0.13	0.03	25.87%
1981-82	0.16	0.04	27.19%
1982-83	0.18	0.05	28.93%
1983-84	0.21	0.06	26.94%
1984-85	0.23	0.07	30.00%
1985-86	0.29	0.10	33.23%
1986-87	0.33	0.11	34.94%
1987-88	0.38	0.14	36.38%
1988-89	0.44	0.16	35.54%
1989-90	0.52	0.18	34.93%
1990-91	0.58	0.21	35.86%
1991-92	0.67	0.22	33.04%
1992-93	0.75	0.24	31.86%
1993-94	0.76	0.22	29.30%
1994-95	0.92	0.27	29.03%
1995-96	1.11	0.36	32.15%
1996-97	1.29	0.43	33.28%
1997-98	1.39	0.40	28.87%
1998-99	1.44	0.41	28.28%
1999-2000	1.72	0.48	28.19%
2000-01	1.89	0.48	25.21%
2001-02	1.87	0.40	21.53%
2002-03	2.16	0.45	20.74%
2003-04	2.54	0.49	19.12%
2004-05	3.05	0.58	18.89%
2005-06	3.66	0.65	17.77%
2006-07	4.74	0.86	18.23%
2007-08	5.93	1.04	17.55%
2008-09	6.05	1.00	16.50%
2009-10	6.25	0.83	13.34%
2010-11	7.93	1.36	17.12%
2011-12	8.89	1.49	16.79%
2012-13	10.36	1.65	15.96%
2013-14	11.39	1.72	15.11%

Financial Year	Gross Tax Revenue (₹ lakh crore)	Customs (₹ lakh crore)	Share in Total Tax revenue of the Union
2014-15	12.45	1.88	15.10%
2015-16	14.56	2.10	14.45%
2016-17	17.16	2.25	13.13%
2017-18*	19.19	1.29	6.72%
2018-19	20.80	1.18	5.66%
2019-20	20.10	1.09	5.44%
2020-21	20.27	1.35	6.65%
2021-22	27.09	2.00	7.37%
2022-23	30.54	2.13	6.99%
2023-24	34.66	2.33	6.73%
2024-25	37.96	2.33	6.14%
2025-26 (RE)	40.78	2.58	6.33%
2026-27 (BE)	44.04	2.71	6.15%

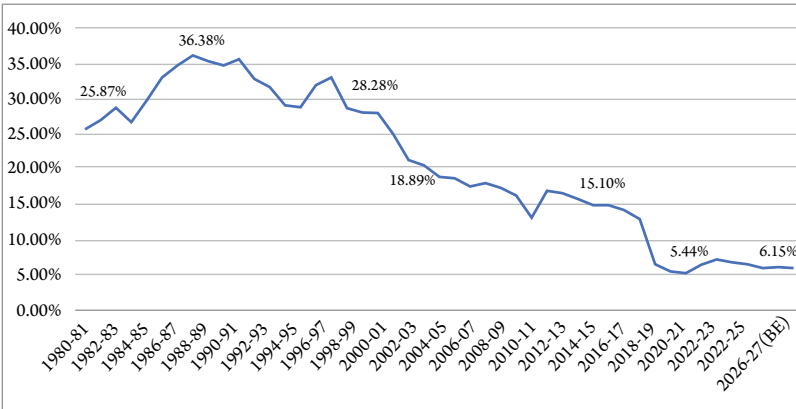
Source: Author's Compilation from Union Budget

Figure 1: Gross tax revenue and Customs' revenue trends



Source: Author's Compilation

Figure 2: Customs' revenue contribution to India's tax revenue since 1980-81 (in %)



Source: Author's Compilation

This stark decline is not merely a statistical anomaly but a deliberate consequence of policy shifts toward trade liberalization, WTO commitments, and an evolving tax regime that places greater emphasis on domestic revenue tools like the Goods and Services Tax (GST) and direct taxation.

Thus, the potential lowering of tariff rates in India that might follow will be no watershed moment in India's history. India has been systematically lowering its import tariffs, slowly since 2001-02, and more swiftly from 2015-16 in alignment with India's broader trade liberalization strategy and its WTO-bound tariff commitments which has naturally led to a decline in customs revenue as a proportion of total taxes. India has already entered into duty-free access for several

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imports under FTAs with ASEAN, Japan, and South Korea which allow zero or reduced customs duties on many imports. Further, the recent union budgets have rendered custom duty exemptions on various sectors such as life saving medicines, critical mineral, textile sector, mobile phone manufacturing etc.

Selected Trade Agreements Concluded or Under Negotiation in Recent Years

S. No	Country / Institution	Agreement Name	Date
1	Mauritius	India Mauritius Comprehensive Economic Cooperation and Partnership Agreement	22 February 2021
2	United Arab Emirates	India UAE Comprehensive Economic Partnership Agreement	18 February 2022
3	Australia	Australia-India Comprehensive Economic Cooperation Agreement	2 April 2022
4	EFTA	India EFTA Trade and Economic Partnership Agreement	10 March 2024
5	United Kingdom	India-UK Comprehensive Economic and Trade Agreement	24 July 2025
6	Oman	India-Oman Comprehensive Economic Partnership Agreement	18 December 2025
7	European Union	India-EU Free Trade Agreement	27 January 2026

Source: Author's Compilation

These agreements have opened up duty-free or low-duty access to and from partner countries, naturally leading to reduced customs revenue but increased trade flows. The rationale is clear: short-term revenue foregone through tariff reductions is expected to be offset by long-term gains in trade expansion, efficiency, and economic growth.

Summary of major reduction in customs duty announced in Union Budget 2026-27:

Commodity	From (%)	To (%)
Capital goods for manufacturing Lithium-Ion Cells for battery energy storage systems (BESS)	Applicable	Nil
Capital goods required for processing of critical minerals in India	Applicable	Nil
Sodium antimonate for use in manufacture of solar glass	7.5	Nil
Goods required for Nuclear Power Projects (exemption extended till 2035, all nuclear plants)	Applicable	Nil
Components and parts for manufacture of civilian and training aircrafts	Applicable	Nil
Raw materials for manufacture of aircraft parts for MRO by Defence sector units	Applicable	Nil
Specified parts used in manufacture of microwave ovens	Applicable	Nil
17 anti-cancer drugs and medicines for rare diseases	Applicable	Nil
Dutiable personal-use goods (Heading 9804) imported for personal use	20	10
Inputs for processing seafood products for export (duty-free import limit increased)	1% of FOB value of exports	3% of FOB value of exports
BCD exemption extended: Capital goods for Li-Ion cells for mobile phone batteries	Applicable	Nil

Source: Author's Compilation



Strategic Leverage in Trade Negotiations

The decline in customs revenue dependence empowers India in at least three key ways during trade negotiations:

1. Reduced Revenue Risk

In earlier decades, cutting import duties could significantly dent government revenues. For instance, during the 1990s, customs revenue made up nearly 30-35% of total tax receipts. Today, with that figure under 6%, the fiscal hit from liberalizing trade is minimal.

This makes India more flexible in offering concessions without undermining its budgetary stability - a critical factor in negotiating large-scale trade pacts, especially with advanced economies. Imagine being in a position where 15% of your revenues are at stake while



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negotiating trade deals vis-à-vis just 5-6%.

2. Focus on Industrial Impact Over Fiscal Loss

Without the looming worry of revenue foregone, the government can concentrate entirely on evaluating the impact of reduced tariffs on domestic producers. This allows for smarter, sector-specific protections and phasing mechanisms to ensure that local industries adapt progressively.

3. Better Risk Management for Exporters

Indian exporters face increasing challenges in global markets, from EU's Carbon Border Adjustment Mechanism (CBAM) to retaliatory tariffs by developed economies. By signing FTAs that offer reciprocal duty-free access, India can mitigate export revenue risks, helping domestic industries maintain competitiveness globally.

The Shift from Revenue to Regulation

As customs duties lose fiscal importance, their future lies in regulatory oversight:

- **Quality Control:** Ensuring imported goods meet safety and environmental standards.



- **Strategic Protection:** Temporary duties to counter unfair trade practices or protect strategic sectors.
- **Sustainability Goals:** Using tariffs to discourage environmentally harmful imports and promote green alternatives.

This transformation reflects a maturing economy no longer reliant on border taxes to balance its books.

Industrial Preparedness for a Low-Tariff Economy

Critics of tariff reduction often cite the vulnerability of local industries to international competition. However, India has used the last decade to prepare its industries:

- **PLI Schemes** (Production Linked Incentives) have incentivized domestic manufacturing across sectors like mobile phones, pharmaceuticals, electronics, and textiles.
- **Investment in infrastructure** — logistics parks, ports, dedicated freight corridors have led to improved cost competitiveness.



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- **Digital governance and compliance systems** have reduced transaction costs for exporters and importers alike.

Thus, India is better placed today than ever before to absorb the shocks of liberalization and capitalize on trade opportunities.

What Lies Ahead

As India deepens its engagement with the world - particularly with the EU, US, UK, and Africa - its approach to customs duties will continue to evolve:

- **Expect more FTAs**, especially with countries in Africa and Latin America, where India can leverage its manufacturing prowess.
- **Continued reduction in tariffs** on strategic inputs will support Make in India and green transition initiatives.

The government's ability to decouple fiscal health from customs revenue opens up immense room for ambitious trade strategies that align with national interests - both economic and geopolitical.

Conclusion

India's sustained decline in dependence on customs revenue represents a paradigm shift in fiscal and trade policy. From being a key source of funds, customs duties have become an increasingly marginal tool, used more for strategic signalling than revenue collection. This shift is likely to have various far-reaching implications:

- It grants India greater leverage and flexibility in trade negotiations.
- It reduces the domestic economic cost of liberalization.



- It reflects a maturing fiscal framework supported by more sustainable and equitable tax bases.

As India positions itself to further strengthen its position in the global economic landscape and emerge as a global economic leader, the proactivity displayed by country's financial leadership in realignment of customs framework in the last 2 decades, will prove to be a cornerstone of our strategic future.

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