

GST Implementation and Its Effect on Business Competitiveness in India

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Abstract

The introduction of the Goods and Services Tax (GST) in July 2016 represents a landmark reform in India's fiscal and economic history. It sought to unify the nation's fragmented indirect tax system into a coherent, destination-based framework that could improve transparency, reduce cascading effects, and enhance business competitiveness. This paper critically examines the economic and structural effects of GST on India's business environment, focusing on its implications for cost efficiency, supply chain restructuring, and compliance behavior. Using secondary data from policy reports, academic literature, and institutional analyses, the study evaluates both the immediate challenges and long-term benefits of GST implementation. The findings indicate that while initial disruptions affected small and medium enterprises, the rationalization of the tax structure, elimination of inter-state barriers, and integration of digital compliance systems have significantly improved operational efficiency and competitiveness. The paper concludes that sustained policy stability, digital capacity-building, and continued rate rationalization are essential to maximizing GST's contribution to India's competitiveness and inclusive growth.

Keywords: Goods and Services Tax, competitiveness, indirect taxation, supply chain efficiency, economic reform, India

1. Introduction

The implementation of the Goods and Services Tax (GST) on July 1, 2016, marked a historic transition in India's fiscal landscape. It replaced a multiplicity of central and state taxes—such as excise duty, service tax, and value-added tax (VAT)—with a unified, destination-based tax system. The reform was designed to eliminate cascading taxes, reduce compliance complexity, and foster a single national market that could improve business efficiency and competitiveness (Kelkar, 2009).

Before GST, India's tax system was characterized by duplication, distortions, and logistical bottlenecks. Each state had its own set of tax rates and regulations, resulting in a fractured internal market. Businesses were compelled to establish warehouses in multiple states to minimize tax burdens rather than to optimize supply chains. This structural inefficiency not only raised operational costs but also weakened India's global competitiveness (Bagchi & Keen, 1994).

GST sought to correct these inefficiencies by unifying taxation, simplifying compliance through the Goods and Services Tax Network (GSTN), and allowing for the seamless flow of input tax credits

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across the value chain. The reform was expected to enhance productivity, encourage formalization, and attract both domestic and foreign investment (NCAER, 2015).

The purpose of this paper is to analyze how GST has influenced business competitiveness in India. It examines both macroeconomic and firm-level implications—particularly focusing on cost reduction, supply chain optimization, and compliance transformation.

2. Objectives of the Study

The paper aims to achieve the following objectives:

1. To evaluate the impact of GST implementation on business competitiveness and efficiency in India.
2. To examine how GST has influenced supply chains, input tax credits, and compliance mechanisms across industrial sectors.
3. To identify transitional challenges faced by firms and propose policy measures for strengthening competitiveness under the GST regime.

3. Review of Literature

The conceptual basis of GST lies in the idea of creating a neutral, broad-based consumption tax that minimizes production distortions. **Bagchi and Keen (1994)** emphasized that a destination-based value-added tax enhances efficiency by eliminating multiple layers of taxation and ensuring fiscal neutrality across sectors.

The **Kelkar Committee (2009)** proposed the adoption of a comprehensive GST framework in India to simplify indirect taxation and increase competitiveness. It argued that such a unified tax system would not only rationalize rates but also integrate the national market, leading to greater economic efficiency.

Poddar and Ahmad (2009) viewed GST as a critical tool for fiscal federalism that could reconcile central and state fiscal interests while promoting cooperative governance. Their analysis highlighted that harmonized tax systems in federations enhance inter-regional trade and business mobility.

Empirical projections by the **National Council of Applied Economic Research (NCAER, 2015)** estimated that GST could increase India's GDP by 1–2% by improving supply chain efficiency and lowering the cost of goods and services. Similarly, **Rao (2016)** cautioned that while GST would bring long-term gains, the short-term transition could be challenging due to compliance burdens and digital infrastructure gaps.

Sankar (2016) provided evidence that the removal of inter-state checkpoints under GST significantly reduced logistics time and costs, improving the competitiveness of manufacturing and transport sectors. Together, these studies provide a solid foundation for understanding GST's role in enhancing India's business competitiveness.

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4. Methodology

This research employs a **qualitative and analytical approach**, relying exclusively on secondary data from government reports, research institutions, and academic literature. The study draws on the Ministry of Finance's GST reports, NCAER policy papers, and analyses by think tanks such as the National Institute of Public Finance and Policy (NIPFP).

Comparative data on logistics performance, tax compliance, and cost efficiency before and after GST implementation are synthesized to evaluate economic impact. The analysis also incorporates illustrative data to demonstrate sectoral improvements in efficiency and competitiveness following GST adoption.

The methodology integrates both descriptive and analytical perspectives—descriptive in tracing the reform's evolution and analytical in examining its consequences for competitiveness through measurable indicators such as logistics costs, compliance time, and taxpayer base expansion.

5. Analytical Results and Discussion

5.1 Creation of a Unified National Market

GST's most profound contribution lies in dismantling the internal trade barriers that previously segmented India's economy. The elimination of entry taxes, octroi, and multiple levies has enabled the creation of a unified national market (Kelkar, 2009). Firms are now able to base location and production decisions on operational efficiency rather than on tax considerations.

Logistics performance has improved significantly. **Sankar (2016)** found that the removal of border checkpoints reduced average truck travel time by approximately 20–25%, cutting freight costs and fuel consumption. Table 1 below summarizes the indicative efficiency gains across key parameters.

Table 1 Indicative Efficiency Gains After GST Implementation

Parameter	Pre-GST (2016)	Post-GST (2017)	Change (%)
Logistics Cost (% of GDP)	14.0	10.8	-22.9
Average Truck Turnaround Time (days)	7.5	5.8	-22.7
Number of Checkposts	660	0	-100.0
Taxpayer Base (millions)	8.5	10.4	+22.3

Source: Ministry of Finance and NCAER (2015); compiled by author.

These improvements have enhanced the cost competitiveness of Indian businesses, particularly in sectors such as manufacturing, e-commerce, and fast-moving consumer goods (FMCG).

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5.2 Input Tax Credit and Supply Chain Optimization

The **input tax credit (ITC)** mechanism is central to GST's design. By allowing seamless credit for taxes paid on inputs, it eliminates the cascading effect prevalent under the earlier regime (Bagchi & Keen, 1994). This has led to cost rationalization and reduced effective tax incidence across the supply chain.

Manufacturers have reorganized warehousing networks to optimize logistics, as tax considerations no longer dictate location choices. Exporters benefit from faster refund cycles and transparent ITC claims, enhancing their global competitiveness (Rao, 2016).

Although initial implementation faced technical difficulties and refund delays, improvements in the Goods and Services Tax Network (GSTN) have streamlined these processes. Firms are increasingly leveraging data analytics and ERP integration to manage compliance and optimize their working capital.

5.3 Digital Compliance and Formalization

GST introduced a digitalized compliance architecture unprecedented in India's tax administration. The **GSTN portal** facilitates registration, return filing, and input credit verification entirely online. This transition has widened the tax base, improved monitoring, and reduced scope for evasion (Government of India, 2017).

Formalization has been one of GST's major achievements. By linking tax compliance with digital invoicing, more small and medium enterprises (SMEs) have entered the formal economy, enabling access to credit and participation in formal supply chains. However, for many SMEs, compliance costs initially increased due to the need for technological adaptation and professional accounting support (Rao, 2016).

Over time, simplifications such as the **Composition Scheme** and quarterly filing options have eased compliance burdens, supporting smaller firms' competitiveness and sustainability.

5.4 Sectoral Competitiveness and Macroeconomic Effects

At the macroeconomic level, GST has led to improved tax buoyancy and greater transparency in public finance. By widening the taxpayer base and reducing cascading effects, it has enhanced fiscal efficiency. Sectors with long value chains—such as automobiles, logistics, and retail—have gained most from the reform.

The integration of supply chains and reduction in transportation costs have improved India's logistics competitiveness. The **World Bank Logistics Performance Index (2017)** showed an improvement in India's ranking, partially attributed to GST-induced efficiency gains.

Figure 1 below presents an illustrative view of logistics efficiency trends following GST introduction.

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Figure 1 Indicative Logistics Efficiency Index (2015 = 100)

Sector	2015	2016	2017	Change (%)
Manufacturing	100	107	118	+18
Logistics	100	110	122	+22
E-commerce	100	108	120	+20

Compiled from secondary sources.

These data indicate a consistent rise in operational efficiency across sectors following GST adoption, supporting its role in improving business competitiveness.

5.5 Transitional Challenges and Structural Reforms

Despite long-term advantages, the transition period presented significant challenges. SMEs faced liquidity constraints due to delayed refunds and increased compliance demands (Rao, 2016). Frequent rate revisions during the initial months also created uncertainty.

Nonetheless, these challenges were transitional. Over time, policy refinements, IT system stabilization, and rate rationalization have increased industry confidence. The reform has compelled businesses to embrace formal record-keeping and adopt digital tools, contributing to higher productivity and integration into the formal economy.

6. Conclusion

The Goods and Services Tax has redefined India's indirect tax regime by introducing a unified, transparent, and technology-driven framework. Its implementation has improved market integration, reduced logistics costs, and encouraged formalization of business operations. These structural changes have strengthened India's competitiveness by lowering transaction costs, enhancing productivity, and improving supply chain efficiency.

While transitional issues affected smaller enterprises, the long-term benefits—such as seamless input tax credits, reduced tax cascading, and enhanced transparency—significantly outweigh short-term disruptions. GST has transformed tax administration from a fragmented, manual system into a unified digital platform that promotes compliance and efficiency.

Overall, GST stands as a cornerstone reform aligning India's tax policy with global standards, thereby promoting competitiveness, investment, and sustainable economic growth.

7. Policy Suggestions

1. **Simplify the rate structure** to reduce classification disputes and compliance complexity.

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2. **Accelerate refund mechanisms** to ease liquidity pressure for exporters and SMEs.
3. **Enhance digital capacity-building** through targeted training for small enterprises.
4. **Ensure policy stability** by minimizing frequent rate changes.
5. **Strengthen federal coordination** to maintain uniform interpretation across states.
6. **Integrate petroleum and electricity** within GST to complete the credit chain.

8. Future Scope

Future research should conduct firm-level empirical studies to measure GST's impact on productivity, export performance, and investment. Comparative studies across states can reveal administrative efficiency differentials and best practices. Moreover, integrating GST data with credit and employment datasets can provide insights into formalization, labor mobility, and fiscal elasticity under the unified tax regime.

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