



# Four years of India's New Tax Regime (GST) and its impact on India's International Trade: A critical Review

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## **Abstract**

*The introduction of Goods and Services Tax (GST) is a significant reform in the field of indirect tax system in the country. It was a single tax system instead of multiple tax system levied by the centre and state government. GST has come into force in 1 July 2017 and completed four years of its implementation. GST reform in India is expected to improve the specialization in production of goods and services among the major economic sectors of India by removing distortion in the production and distortions of goods and services, transparency in tax system which help to maintain the seven percent GDP growth rate (Bhattarai Keshab (2017).*

*Goods and Services Tax is basically destination-based consumption tax levied on goods and services (Bhushan Satya). New tax reform imposed by the new government certainly increase the efficiency of allocation of resources which not only increase the rate of economic growth but also redistribute the income equally among the weaker section of the society (Panagariya 2017). The expected benefits from the implementation of the GST to reduce the cascading effect of taxes i.e. removes tax on tax.*

*After the implementation of GST, has made a significant impact on India's international trade as it brought changes in the structure of export and import taxation and withdrew various indirect taxation. The economic growth of a country is determined by its foreign trade. With the introduction of GST on 1 July 2017, it was expected to boost up India's international trade.*

*The objective of the study is to analyses the four years of India's new tax regime. This paper further tries to examine the effects of GST on India's merchandise trade and services trade. The paper also tries to find out the impact of GST on India's international trade.*

*Finally, the study tries to conclude that how it would be disrupted and benefits the economy in the long run.*

**Keywords:** GST, International Trade, Export, Import, Economic Growth.

## I. Introduction:

The introduction of Goods and Services Tax (GST) is a significant reform in the field of indirect tax system in the country. It was a single tax system instead of multiple tax system levied by the centre and state government. GST has come into force in 1 July 2017 and completed four years of its implementation. No doubt GST is perhaps the biggest tax reform in the history of independent India. GST become the new tool to eliminate the cascading effects of taxes i.e. removes tax on tax.

GST reform in India is expected to improve the specialization in production of goods and services among the major economic sectors of India by removing distortion in the production and distortions of goods and services, transparency in tax system which help to maintain the seven percent GDP growth rate (Bhattarai Keshab (2017)).

Goods and Services Tax is basically destination-based consumption tax levied on goods and services (Bhushan Satya). New tax reform imposed by the new government certainly increase the efficiency of allocation of resources which not only increase the rate of economic growth but also redistribute the income equally among the weaker section of the society (Panagariya 2017). The expected benefits from the implementation of the GST to reduce the cascading effect of taxes i.e. removes tax on tax. Further, it was expected to increase the demand and consumption of goods and removal of number of indirect taxes such as VAT, CST, Service tax, CAD, SAD, and Excise etc. which help to boost to the Indian economy in the long run.

After the implementation of GST, has made a significant impact on India's international trade as it brought changes in the structure of export and import taxation and withdrew various indirect taxation. The economic growth of a country is determined by its foreign trade. The importance of international trade was recognised by early economists Adam Smith and David Ricardo. last two-decades India record a high GDP growth rate and become fastest growing economy in the world. GDP of a country largely depend upon the performance of export and import. With the introduction of GST on 1 July 2017, it was expected to boost up India's international trade.

## II. Objective of the Study:

The objective of the study is to analyses the four years of India's new tax regime. This paper further tries to examine the effects of GST on India's merchandise trade and services trade. The paper also tries to find out the impact of GST on India's international trade.

Finally, the study tries to conclude that how it would be disrupted and benefits the economy in the long run.

## III. Review of Literature:

Since the implementation of GST, a limited literature is available to analyse the impact of GST on India's international trade. The impact of GST on India's international trade is very important. Export and import sector are one of the most important contributors toward revenue generation of every country. That's why it is very essential to study the impact of GST on India's international trade.

**Agarwall Varsha, Manglani Kapil, Agarwal Nitesh & Sinha Kaushal (2020).** conclude that the implementation of GST has positive impact on the export and import of goods and services. GST has made taxation system of India easy for the exporter and importer. The study also finds out that the introduction of GST has led to increase of import at a higher than export. Widening import not only create trade deficit but also not good for the GDP of the country.

**Ballah. P. (2019)** According to his research the impact of GST on India's export sector has been mixed. The export industry was facing few problems to non-availability of return on time. To address this issue, the GST council took the decision to make six month tax exemption from the heavy taxes. The study also found that the GST has not been very positive in the export sector.

**Shira. D. (2019)** The researcher discusses the importance of international trade. According to researcher, GST have a significant impact on India international trade which change the structure on exports and imports taxation in India. Import under GST are treated as inter state supply. Since GST is destination-based tax, Integrated Goods and Services Tax (IGST) will be levied in the state where the imported goods are consumed and imported services are received. Hence the provision of IGST act shall be applicable to supply of goods and services during import and export.

**Tewari. H. 2(017)** study on GST impact on foreign trade policy discussed that the export community have to accept all the changes by less depend on Foreign Trade Policy(FTP) scheme. He suggests that India exporter and importer pay more attention on open market forces rather than on FTP under GST.

**Nisa S. (2017)** tries to emphasise on India international trade that the new taxation policies that would maximize its economic competence and reduce any or all hindrance to efficient distribution of resources, capital building and international trade. The legal sovereignty however reduces the cost of production and helps to lead an integrated Indian market making industries more competitive. An understanding of tax system is going to be beneficial for timely implementation of measures to overcome all the issues and avoid potential disruptions they could cause to the business.

**Lathesh , Appanna, and Avdani Vidya (2018).** The researcher concludes from their study that GST would reduce the burden of the individuals and able to increase the share in international trade. They also point out that the introduction of GST have many positive impact on India's international trade (Import and export of goods).

#### IV. **Research methodology:**

The current study focuses of the four years of India's new tax regime and its impact on India's international trade from 1 July 2017 to 1 July 2021. The approach is straight forward and mainly based on the secondary data sources. The information was gathered from the different sources, including Ministry of commerce and industry, Reserve bank of India data base, economic survey, relevant websites, government Publications, various national and international journals articles publications, conference papers, government reports, newspapers, magazines which focused on various aspects of tax structure and GST.

#### V. **Impact on India's Export:**

Under GST, exports are treated as zero rated supply means GST rate is fixed to zero. A exporter can make a claim if GST is paid at any point of supply against exports from India. A trader may either export without the payment of IGST under bond or letter or may made a payment of the IGST and claim the refund later.

In each case it the responsibility of the exporter to provide the details of the GST invoice in the shipping bill like name, GSTIN, address invoice number, HSN code of the goods along with description, total value and quantity of goods.

#### VI. **Impact on India's Import:**

Import under GST are treated as inter state supply means supply of goods from one state to another. Since GST is destination-based tax, Integrated Goods and Services Tax (IGST) will be levied in the state where the imported goods are consumed and imported services are received. Hence the provision of IGST act shall be applicable to supply of goods and services during import and export.

**Tax structure and Input tax credit in case of Export and Import under GST**

	<b>Export</b>	<b>Import</b>
Tax Structure	Zero rated supply. No tax shall be charged	IGST and Basic Custom Duty (BCD) shall be levied.
Input Tax Credit	ITC allowed. Refund shall also be allowed.	ITC and GST allowed. ITC of BCD not allowed

The input tax credit is the credit that dealers can avail for taxes paid on their purchases, at the time of paying final tax on their sales. IGST can be paid using input tax credit of central goods and services tax (CGST), state goods and services tax (SGST), and IGST.

In the case of CGST and SGST, no cross utilization of input tax credit is allowed. This means that input tax credit of CGST can only be utilized for CGST and IGST, and an input tax credit of SGST can only be utilized to pay for SGST and IGST.

**VII. Overall Trade:**

The broad trends in overall Exports, Imports and Trade Balance in the last four years are indicated in the figure-1 and table-1 below:

Overall export in 2017-18 were US\$498.62 billion which increase to US\$ 538.11 billion in 2018-19. India's overall exports (merchandise and services combined) passed the half trillion-dollar mark during 2019-20 but remained lower than 2018-19. India's overall exports in 2019-20 were US\$ 526.55 billion as against US\$ 538.08 billion in 2018-19, registering a negative growth of (-) 2.1 percent.

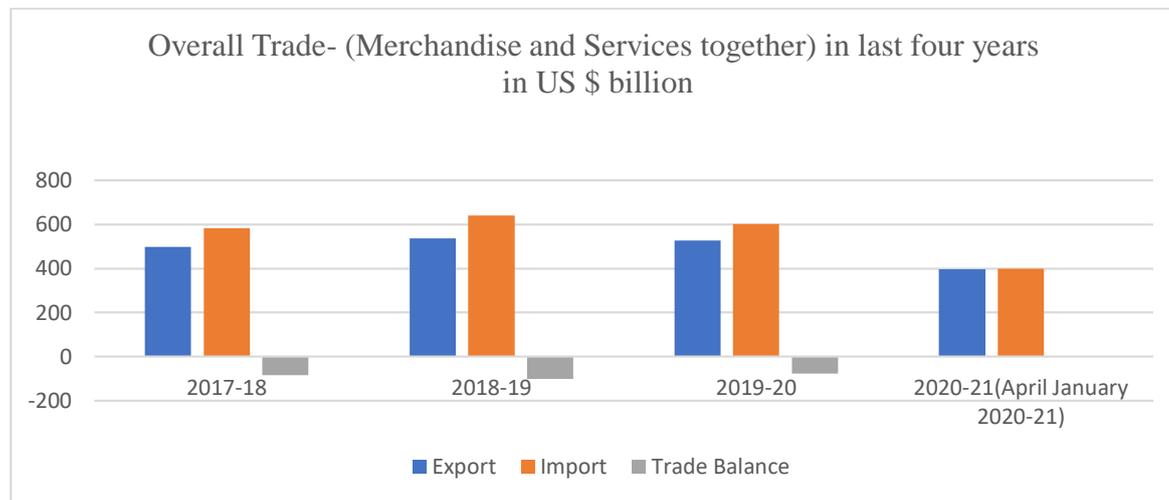
Overall imports in 2017-18 were US\$583.11billion which increase to US\$ 640.14 billion in 2018-19. In 2019-20 the overall import was US\$ 603 billion, exhibiting a negative growth of (-) 5.8 percent over the same period last year. For the period April- January 2020-21 imports were estimated at US\$ 398.47 billion as against US\$ 602.98 billion during 2019-20, registering a negative growth of (-) 25.9 percent.

Overall trade deficit in 2017-18 were US\$ 84.89 billion. In 2019-20 the overall trade deficit was US\$ 76.43 billion, which was lower than the deficit of US\$ 102.02 billion in 2018-19. Overall trade surplus for the period April-January2020-21 is estimated at US\$ 1.87 billion as against the deficit of US\$ 76.43 billion during 2019-20.

**Table-1**

<b>Year</b>	<b>Export</b>	<b>Import</b>	<b>Trade Balance</b>
2017-18	498.62	583.11	-84.89
2018-19	538.08	640.14	-102.02
2019-20	526.55	602.98	-76.43
2020-21(April January 2020-21)	396.6	398.47	1.87

Figure-1



Source: Annual report 2020-21 department of commerce, Ministry of Commerce and Industry.

### VIII. India's Merchandise Trade:

Financial year 2019-20 saw global economic slowdown, which was aggravated in the last two months of the financial year due to the onset of the COVID pandemic, which saw exports declining by (-) 5.1 percent from the peak of US\$ 330.08 billion in 2018-19 to US\$ 313.36 billion in 2019-20. The broad trends of Merchandise Exports, Imports and Trade Balance in the last four years are given in fig-2 and table-2 below.

April-January 2020-21 (QE) exports were US\$ 62.84 billion as against US\$ 313.36 billion during the period 2019-20, registering a negative growth. Imports during 2019-20 also registered a decline of (-) 7.66% from US\$ 514.08 billion in 2018-19 to US\$ 474.71 billion in 2019-20.

#### Merchandise Trade

Table-2

(Value in US \$ billions)

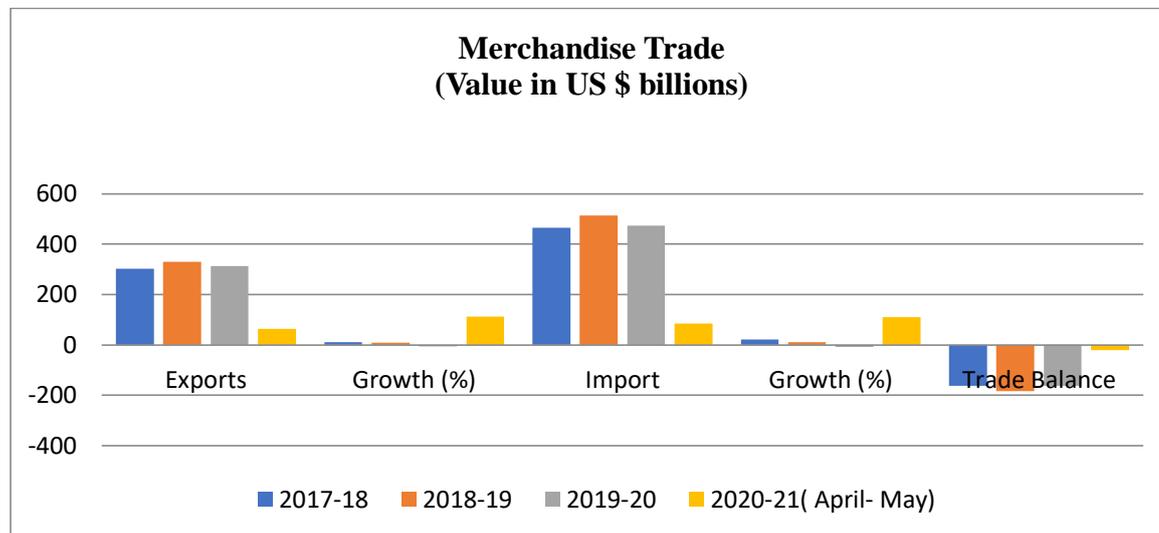
Year	Exports	Growth (%)	Import	Growth (%)	Trade Balance
2017-18	303.53	10.03	465.58	21.13	-162.05
2018-19	330.08	8.75	514.08	10.42	-184
2019-20	313.36	-5.06	474.71	-7.66	-161.35
2020-21 (April- May)	62.84	112.29	84.25	110.73	-21.41

Source: RBI database and RBI press Release.

## Merchandise Trade

## Figure-2

( Value in US \$ billions)



Import during April-January (QE) 2020-21 stood at US\$ 84.25 billion, recording a decline of (-) 29.1 percent compared to US\$ 474.71 billion during 2019-20. The trade deficit in 2019-20 was estimated at US\$ 161.35 billion as against the deficit of US\$ 184 billion in 2018-19. In April-May 2020-21(QE), trade deficit narrowed down to US\$ 21.41 billion from US\$ 161.35 billion in 2019-20.

## IX. India's services Trade:

After 1 July 2017, services of import are chargeable under IGST. The provision to charge IGST on services either the services is located outside the India territory or services receive from within the territory. India's services export and import is clearly mention in fig-3 and table-3 below.

Instead of global slowdown in 2019-20, and the result of Covid-19 crisis, services sector has continued to record a positive growth in 2019-20. Services sector export were US\$195.09 billion in 2017-18 which increase to US\$ 208 billion in 2018-19. In 2019-20 service sector stood at US\$ 213.2 billion as compared to US\$ 208 billion recorded in 2018-19, which is a growth of 2.5 percent. India's services exports (estimated) stood at US\$ 168.35 billion in April-January 2020-21 (E) as compared to US\$ 213.19 billion in 2019-20 record a positive growth of 6.62 percent.

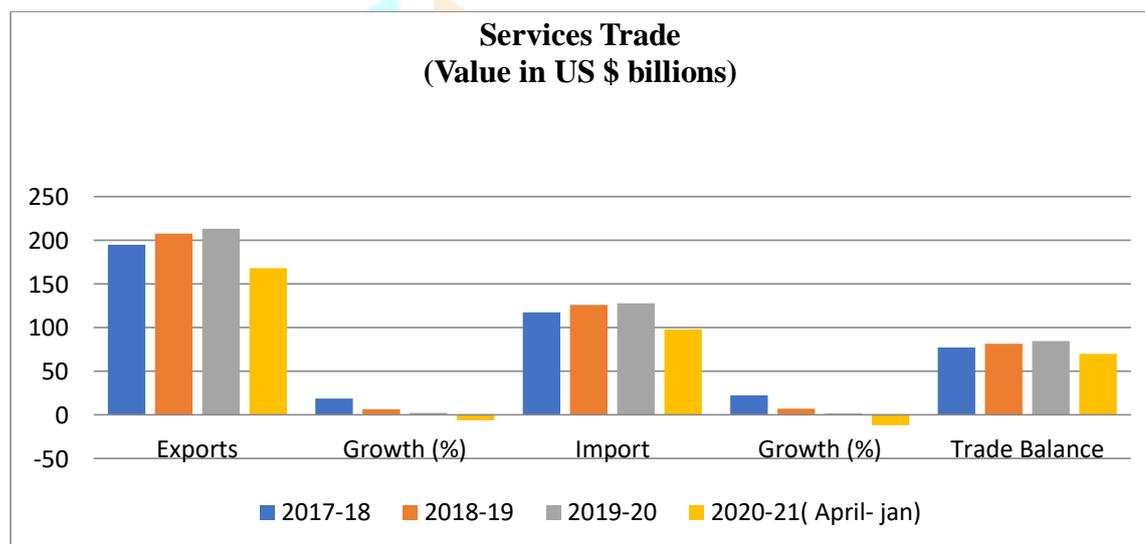
As far as imports of services sector is concerned it were US\$ 117.53 billion in 2017-18 which increase to US\$ 126.06 billion in 2018-19 registered a positive growth rate of 7.26 percent. Services imports in 2019-20 increased by 1.75 percent to US\$ 128.27 billion, compared to US\$ 126.1 billion in 2018-19. The cumulative value of imports during April- January 2020-21 (E) was US\$ 98.21 billion, registering a negative growth of (-) 11.4 percent vis-à-vis 2019-20. A surplus of US\$ 84.92 billion and US\$ 70.14 billion was recorded during this period.

Services Trade **Table-3** (Value in US \$ billions)

Year	Exports	Growth (%)	Import	Growth (%)	Trade Balance
2017-18	195.09	18.81	117.53	22.61	77.56
2018-19	208	6.62	126.06	7.26	81.94
2019-20	213.19	2.5	128.27	1.75	84.92
2020-21( April- jan)	168.35	-6.29	98.21	-11.4	70.14

Source: RBI database and RBI press Release.

Services Trade **Figure-3** (Value in US \$ billions)



## Major Commodities of Export and Import of India:

### Export of Top 10 Commodities by India:

(Value in US \$ billions)

Rank	Commodities	2018-19	2019-20	Growth (%)	Share (%)
1	Petroleum Products	46.55	41.29	-11.31	13.18
2	Pearls, Precious and Semi-Precious Stone	25.97	20.69	-20.33	6.6
3	Drug Formulation, biologicals	14.39	15.94	10.78	5.09
4	Gold and other Precious metal jewellery	12.95	13.75	6.15	4.39
5	Iron and steel	9.74	9.28	-4.77	2.96
6	Electric Machinery and equipment	8.42	8.97	6.45	2.86
7	RMG Cotton and accessories	8.69	8.64	-0.6	2.76
8	Organic Chemicals	9.33	8.35	-10.47	2.66
9	Motor vehicle/cars	8.50	7.80	-8.26	2.49
10	Products of Iron and steel	7.26	7.01	-3.49	2.24

Source: DGCI & S, Kolkata

India's major export item is petroleum product which contribute 13.18 percent in 2019-20 of total export. The value of Petroleum products in the total Indian export is around US\$ 46.55 billion in 2018-19 and 41.29 US \$ in 2019-20 respectively. Second most important export item of India is Pearls, Precious and Semi-Precious Stone which accounted 6.6 percent of total export item followed by drug formulation and biological products.

**Import of Top 10 Commodities by India-**

(Value in US \$ billions)

Rank	Commodities	2018-19	2019-20	Growth (%)	Share (%)
1	Petroleum Crude	114.04	102.75	-9.90	21.61
2	Gold	32.91	28.23	-14.22	5.95
3	Petroleum Products	26.88	27.80	3.34	5.86
4	Pearls, Precious and Semi-Precious Stone	27.08	22.46	-17.05	4.73
5	Coal, Coke and Briquettes etc.	26.18	22.46	-14.22	4.73
6	Electrical Component	15.75	16.32	3.64	3.44
7	Telcom Instruments	17.92	14.22	-20.61	3.00
8	Organic Chemicals	14.25	12.22	-14.23	2.57
9	Industrial Machinery for diary	12.47	11.98	-3.93	2.52
10	Electric Machinery and equipment	9.86	11.28	14.37	2.38

Source: DGCI &amp; S, Kolkata

As far as India's top ten important import item is concerned, crude petroleum was the top import item during 2019-20 which contributed 21.61 percent of total import. The value of crude Petroleum in the total Indian import is around US\$ 114.04 billion in 2018-19 and 102.75 US \$ in 2019-20 respectively. After crude petroleum the second most important item of India's import is gold which account 5.95 percent of total India's import in 2019-20. India imported 160 tonnes of gold worth \$ 8.4 billion in March 2021. Apart from crude petroleum, India imports a large variety and volume of finished petroleum products, Pearls, Precious and Semi-Precious Stone, Coal, Coke and briquettes etc, electrical component, telcom instruments, organic chemicals were the most important item of India's import.

**X. Analysis of the Result:**

The above discussion on new tax regime and its impact on India's international trade clearly shows that position of the country after the introduction of GST in 2017. The overall trade deficit in 2019-20 was US\$ 76.43 billion, which was lower than the deficit of US\$ 102.02 billion in 2018-19. Overall trade surplus for the period April-January 2020-21 is estimated at US\$ 1.87 billion as against the deficit of US\$ 76.43 billion during 2019-20.

As far as India's merchandise export is concerned, during April-January 2020-21 (QE) exports were US\$ 62.84 billion as against US\$ 313.36 billion during the period 2019-20, registering a negative growth.

Import during April-January (QE) 2020-21 stood at US\$ 84.25 billion, recording a decline of (-) 29.1 percent compared to US\$ 474.71 billion during 2019-20. The trade deficit in April-May 2020-21(QE), narrowed down to US\$ 21.41 billion from US\$ 161.35 billion in 2019-20.

Instead of global slowdown in 2019-20, India's services exports (estimated) stood at US\$ 168.35 billion in April-January 2020-21 (E) as compared to US\$ 213.19 billion in 2019-20 record a positive growth of 6.62 percent.

As far as imports of services sector is concerned, during April- January 2020-21 (E) was US\$ 98.21 billion, registering a negative growth of (-) 11.4 percent vis-à-vis 2019-20. A surplus of US\$ 84.92 billion and US\$ 70.14 billion was recorded during this period.

**XI. Conclusion:**

On July 1, 2021, GST has completed four years of its implementation. It is not a short period to see the impact of GST on India's international trade. Four years after its implementation, it continues to face significant challenges.

The result of the above discussion clearly indicates that the overall performance of export might be positive in the coming years due to the better functioning and refund mechanism. India's foreign trade weighs heavily on the side of imports. This has resulted in a widening trade deficit.

On the basis of above discussion, it can be also concluded that GST has reduce the tax burden on importers and provide the large opportunities to promote the export sector of India. India's merchandise export and import registering a negative growth in 2020-21 while as instead of global slowdown in 2019-20, India's services exports (estimated) stood at US\$ 168.35 billion in April-January 2020-21 (E) as compared to US\$ 213.19 billion in 2019-20 record a positive growth of 6.62 percent. On the other side, imports of services sector is concerned, during April- January 2020-21 (E) was US\$ 98.21 billion, registering a negative growth of (-) 11.4 percent vis-à-vis 2019-20. A surplus of US\$ 84.92 billion and US\$ 70.14 billion was recorded during this period.

In recent years government of India try to be increasing the competitiveness of Indian export through Export Promotion Council. In export of services sector zero rated export would be encourage to development of export of services in India. Therefore, the introduction of new tax system is not only reduce the tax burden of the individual but also improve the india;s international trade.

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