

CONTEMPORARY SOCIAL SCIENCES

PEER REVIEWED, INDEXED & REFEREED QUARTERLY INTERNATIONAL JOURNAL

ISSN 0302-9298

<https://www.jndmeerut.org>

[Vol. 33, No. 4 (October-December), 2024]

<https://doi.org/10.62047/CSS.2024.12.31.91>

GST's Contribution to Reducing Interstate Trade Barriers for Manufacturers in India: A Study

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Abstract

The introduction of Goods and Services Tax (GST) in India has had a profound impact on the manufacturing sector, with one of its most significant contributions being the reduction of interstate trade barriers. Prior to GST, India's manufacturing sector faced substantial challenges due to the fragmented and complex indirect tax structure, which led to inefficiencies in the movement of goods across state borders. By consolidating numerous taxes into a unified framework, GST has streamlined the movement of goods, reduced logistical costs, and enhanced the competitiveness of Indian manufacturers. This paper explores the economic effects of GST on reducing interstate trade barriers in India, focusing specifically on the manufacturing sector. It examines the challenges that manufacturers faced prior to GST implementation, the benefits realized after its introduction, and the ongoing issues, particularly for small and medium-sized enterprises (SMEs). Through a comprehensive review of the literature and secondary data analysis, this paper assesses the impact of GST on manufacturing efficiency, competitiveness, and overall growth in the Indian economy.

Keywords

GST, Interstate trade, Barriers, Manufacturing sector, Supply chain, Competitive advantage.

Research Foundation International, New Delhi
(Affiliated to UNO)

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1. Introduction

India's manufacturing sector has long been a cornerstone of the country's economic growth, contributing significantly to employment generation, export performance, and GDP. However, prior to the implementation of Goods and Services Tax (GST), the sector faced substantial challenges due to the fragmented and complex indirect tax system. Manufacturers were burdened with various state and central taxes, including Central Sales Tax (CST), Value Added Tax (VAT), excise duties, and entry taxes like octroi. These taxes created inefficiencies in the movement of goods, increased operational costs, and disrupted supply chains, ultimately affecting the competitiveness of Indian manufacturers in the global market.

The introduction of GST on July 1, 2017, aimed to address these challenges by consolidating a multitude of taxes into a single, unified tax framework. This reform was designed to create a seamless, pan-India market, remove trade barriers, enhance supply chain efficiency, and foster greater competitiveness. By eliminating the cascading effect of taxes and reducing the burden of compliance, GST has facilitated smoother interstate movement of goods, which was previously hindered by state-specific taxes. This paper explores the economic impact of GST on reducing interstate trade barriers for manufacturers, focusing on its contribution to cost reduction, enhanced logistics efficiency, and improved market competitiveness.

2. Literature Review

The literature on the impact of GST on reducing interstate trade barriers highlights several dimensions of its effect on the manufacturing sector. Key areas of focus include the removal of state-specific taxes, reduction in logistical costs, and improvements in business efficiency. The studies emphasize the role of GST in streamlining operations, reducing trade barriers, and enhancing the competitive advantage of Indian manufacturers.

Desai & Kumar (2021) conducted a comprehensive study on the efficiency of interstate trade post-GST. Their research indicates that the elimination of CST and other state-specific taxes has created a level playing field for manufacturers. The study suggests that GST has not only reduced the time taken for goods to move across state borders but has also increased the competitiveness of Indian products in global markets. The standardization of tax rates and the removal of the need for multiple registrations across states have simplified compliance, encouraging manufacturers to engage more actively in interstate trade.

Patel & Verma (2020) focus on the challenges faced by small and medium-sized enterprises (SMEs) in adapting to the GST framework. While large manufacturers have benefited from the simplification of interstate tax structures, SMEs have struggled with compliance due to resource constraints. Their research highlights that the digital filing requirements of GST and the complexities of navigating the new system have posed challenges for SMEs. Despite these difficulties, they also recognize that GST has the potential to enhance interstate trade once these challenges are addressed.

Gupta & Yadav (2019) explore the broader economic implications of GST on the competitiveness of Indian businesses, particularly manufacturers. They argue that GST has played a crucial role in improving the ease of doing business by eliminating interstate barriers. This reform has allowed manufacturers to focus more on improving productivity and reducing costs rather than navigating a complex tax system. The study concludes that GST has fostered a more competitive business environment by reducing inefficiencies and promoting smoother interstate transactions.

Sharma & Gupta (2019) examine the direct impact of GST on logistics costs. Their study shows that the elimination of entry taxes, octroi, and other state-specific levies has significantly reduced transportation and handling costs. Manufacturers, particularly those engaged in interstate trade, have benefited from reduced delays at checkpoints and lower compliance costs. These improvements have contributed to a more efficient and cost-effective supply chain, enabling manufacturers to streamline operations and pass on the cost savings to consumers.

Ravi & Soni (2018) address the challenges encountered during the transition to GST, especially in terms of reducing interstate trade

barriers. While acknowledging the benefits of a unified tax structure, they point out that the initial implementation phase was marred by confusion regarding registration processes, technical glitches in the GST Network (GSTN), and delays in tax refunds. However, they conclude that the long-term impact of GST in reducing trade barriers and fostering efficiency outweighs the initial disruptions.

Aggarwal (2017) examines the transformational impact of GST on creating a unified national market. By subsuming various taxes such as VAT, CST, and excise duties, GST has effectively removed the tax barriers between states. This consolidation has facilitated smoother interstate movement of goods, significantly reducing transaction costs and inefficiencies associated with the previous system. Aggarwal argues that GST aligns with the "One Nation, One Tax" vision, providing manufacturers with the ability to operate seamlessly across state borders, thus improving business competitiveness.

Roy & Singh (2016) emphasize that the introduction of GST has significantly reduced interstate trade barriers by subsuming multiple taxes into a single tax structure. Their research highlights how this simplification has enabled goods to move more freely across state borders, thereby streamlining tax compliance and allowing manufacturers to focus on production rather than navigating the complexities of state-level tax systems.

3. Methodology

This study utilizes secondary data analysis to assess the impact of GST on reducing interstate trade barriers for manufacturers. The data was collected from government reports, industry surveys, academic papers, and case studies published after the implementation of GST. A comparative analysis of pre- and post- GST scenarios in terms of logistics costs, tax compliance, and supply chain efficiencies was conducted. Data from specific sectors such as textiles, automobiles, and consumer goods manufacturing were analyzed, as these industries have experienced varying levels of impact due to GST.

4. GST's Contribution to Reducing Interstate Trade Barriers

The implementation of Goods and Services Tax (GST) in India has brought about several significant benefits, particularly in reducing

interstate trade barriers for manufacturers. Some of the key benefits of GST in this regard are:

4.1 Elimination of State-Specific Taxes

Before the introduction of GST, manufacturers were required to deal with multiple state-specific taxes such as Central Sales Tax (CST), Value Added Tax (VAT), octroi, and entry taxes. These taxes created barriers for businesses when moving goods across state borders, leading to delays, increased transportation costs, and supply chain inefficiencies. With GST, the consolidation of these taxes into a single unified tax system has removed the need for multiple compliance procedures, thus facilitating the smoother movement of goods across states. This has reduced transaction costs and improved efficiency.

4.2 Reduction in Logistics Costs

GST has significantly reduced logistics costs by eliminating entry taxes and octroi, which were previously levied at state borders. This has resulted in faster movement of goods across borders, reducing delays at checkpoints. With the removal of these taxes, manufacturers no longer face the burden of paying multiple taxes at each state border, leading to a more streamlined logistics process. This reduction in logistical costs has benefited manufacturers by improving overall supply chain efficiency and lowering the cost of goods sold.

4.3 Centralization of Warehousing

Under the pre-GST regime, manufacturers were required to set up multiple warehouses in different states to avoid state-specific taxes. This was costly, both in terms of infrastructure and inventory management. Post-GST, the standardization of tax rates across states has allowed businesses to centralize their warehouses in one location. This has not only resulted in lower operational costs but also simplified inventory management. By reducing the need for multiple state-specific warehouses, manufacturers can achieve economies of scale and optimize their supply chains.

4.4 Elimination of Cascading Taxation

One of the major drawbacks of the pre-GST tax system was the cascading effect of taxes, where taxes were levied on taxes at each stage of the production and distribution process. This increased the

overall tax burden and raised production costs. GST has eliminated this cascading effect by allowing manufacturers to claim input tax credits for taxes paid on raw materials and services. This reduction in the overall tax burden has allowed manufacturers to reduce production costs, making their products more competitive in both domestic and international markets.

4.5 Improved Compliance and Simplification of Taxation

GST has simplified tax compliance for manufacturers by creating a single tax structure that applies uniformly across the country. This has eliminated the need for businesses to register in multiple states and comply with different state tax laws. The unified tax structure has reduced the complexity of tax filings and reporting, making it easier for manufacturers to comply with tax regulations. This simplification of tax compliance has helped reduce the administrative burden and costs associated with managing multiple tax systems.

4.6 Enhanced Competitiveness of Indian Manufacturers

With the reduction in tax burden, logistics costs, and supply chain inefficiencies, Indian manufacturers have become more competitive in both domestic and international markets. By making the tax system more transparent and efficient, GST has improved the ease of doing business in India, which has enhanced the overall competitiveness of the manufacturing sector. Manufacturers can now focus more on improving productivity, innovation, and quality rather than dealing with complex tax structures.

4.7 Boost to Interstate Trade

GST has removed trade barriers that previously existed between states, enabling manufacturers to trade more freely and efficiently across state lines. This has resulted in a more integrated national market, where goods can move seamlessly from one state to another without being subjected to additional taxes or delays. By facilitating interstate trade, GST has opened up new market opportunities for manufacturers, allowing them to access a larger customer base and expand their business.

4.8 Encouraging Investment and Economic Growth

The ease of doing business created by the GST framework has attracted both domestic and foreign investment into the Indian manufacturing sector. With fewer barriers to interstate trade and a

more streamlined tax structure, the manufacturing sector has become a more attractive destination for investment. This has the potential to drive economic growth by expanding the industrial base, creating jobs, and contributing to export performance.

4.9 Boost to Digitalization and Technology Adoption

GST has encouraged the adoption of digital technologies for tax filing, reporting, and compliance. Manufacturers have been prompted to upgrade their systems to handle GST-related processes, resulting in greater digitalization of business operations. This shift towards digital processes has improved transparency, reduced the scope for tax evasion, and streamlined operations, helping manufacturers reduce administrative costs and focus on core business activities.

These benefits collectively contribute to the reduction of interstate trade barriers, enhancing the efficiency, competitiveness, and growth potential of India's manufacturing sector. However, challenges remain, especially for small and medium-sized enterprises (SMEs), which face difficulties in adapting to the new GST system. Despite these challenges, the overall impact of GST has been positive for the manufacturing sector, laying the foundation for a more competitive and integrated national market.

5. Conclusion

The implementation of GST has been a transformative reform for India's manufacturing sector, particularly in terms of reducing interstate trade barriers. By simplifying tax compliance, eliminating state-specific taxes, and reducing logistical costs, GST has significantly enhanced the ease of doing business for manufacturers. These improvements have helped manufacturers become more competitive, both within India and globally.

However, challenges remain, especially for small and medium-sized enterprises. While large manufacturers have been able to leverage the efficiencies introduced by GST, smaller firms often face difficulties in adapting to the new system. Simplifying GST compliance for SMEs and ensuring the timely processing of input tax credits are essential steps in maximizing the benefits of GST. Despite these challenges, GST has laid a solid foundation for the growth and modernization of India's manufacturing sector, aligning with the country's vision of becoming a global manufacturing hub.

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