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"SECTORAL ANALYSIS OF GROWTH POTENTIAL IN THE MAJOR ECONOMIC INDUSTRIES AFTER THE GST"



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14	CLOUD COMPUTING AS A DIGITAL BACK BONE FOR GOODS AND SERVICES TAX (GST) SYSTEMS Dr.R. Shiddharthy	66
15	COMPLIANCE CHALLENGES FOR SMALL TRADERS Dr.V.Sudha	71
16	COMPLIANCE CHALLENGES FOR SMALL TRADERS Dr.R.Velmurugan, S.R.Karthick	78
17	CONSUMER PRICE BEHAVIOR POST-GST Dr.R.Velmurugan, B.Dharshini Vishnupriya	85
18	CONSUMER PRICE BEHAVIOUR POST GST IN RETAIL, E-COMMERCE AND DIGITAL TRADE M.Gowsik	90
19	DIGITAL PAYMENTS AND TAX TRANSPARENCY Mr.R.Karthikeyan	94
20	DIGITAL PAYMENTS AND TAX TRANSPARENCY Dr.R.Velmurugan, Dr.D.Bhuvanendran	101
21	DIGITALPAYMENTSAND TAXTRANSPARENCY:EVIDENCEFROMTHEPOST-GSTINDIANECONOMY Mrs. R.Visalakshi	105
22	DIGITAL PAYMENTS AND TRANSPARENCY Dr.P.V.Nandhini	109
23	DIGITAL TRANSFORMATION IN RETAIL MARKETING AND CONSUMER BUYING BEHAVIOUR Raheeshma M, Dr.K.Rajarajeswari	113
24	FINTECH GROWTH AFTER GST S Lakshmanan, K Kavinkumar	117
25	DIGITAL PAYMENTS AND TAX TRANSPARENCY Palpandi S, Sabarison C	120
26	A STUDY ON AWARENESS AND INTEREST TO JOIN IN FARMER PRODUCER ORGANIZATIONS (FPOS) AMONG FARMERS. Dr. B. V. Nithivarshinidevi, Mr. A. Maheshkumar	127
27	EXPORT COMPETITIVENESS AFTER GST REFORMS IN INDIA Dr. M. Nirmala	131

Export Competitiveness after GST Reforms in India
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Abstract

The implementation of the Goods and Services Tax (GST) in India on July 1, 2017 marked one of the most significant tax reforms in the country's economic history. GST replaced a complex system of indirect taxes levied by the central and state governments, such as excise duty, service tax, value added tax (VAT), and central sales tax. The introduction of GST aimed to create a unified tax structure, eliminate the cascading effect of taxes, and improve the efficiency of the supply chain system. One of the important objectives of GST was to enhance the global competitiveness of Indian exports. Under GST, exports are treated as zero-rated supplies, which means that exporters can claim refunds on input taxes paid during the production process. This reduces the overall cost of production and improves price competitiveness in international markets. The GST system has also increased transparency, simplified tax compliance, and encouraged ease of doing business. However, exporters initially faced challenges such as delays in GST refunds, compliance burdens, and technical issues with the GST portal. This paper examines the impact of GST reforms on export competitiveness in India, highlighting both the opportunities and challenges faced by exporters in the post-GST era.

Keywords: GST, Export Competitiveness, Indirect Tax Reform, Zero-Rated Supply, Indian Exports, International Trade.

Introduction

Exports play a vital role in the economic development of a country. A strong export sector contributes significantly to national income, employment generation, and foreign exchange earnings. For developing economies like India, exports are essential for improving the balance of payments and strengthening global trade relations. However, before the implementation of GST, India's indirect tax system was highly complex and fragmented. Multiple taxes were imposed by both central and state governments, creating inefficiencies and increasing the cost of production for businesses. These taxes included excise duty, service tax, VAT, octroi, entry tax, and central sales tax, among others. The presence of multiple taxes led to a cascading effect, where tax was levied on tax, thereby increasing the final cost of goods and services.

This complicated tax structure reduced the competitiveness of Indian products in international markets. Exporters had to deal with several regulatory procedures, tax documentation, and compliance requirements, which increased administrative costs and delayed business operations. To address these issues, the Government of India introduced the Goods and Services Tax as a comprehensive indirect tax reform. GST created a single national market by replacing multiple taxes with a unified tax system. The reform aimed to simplify taxation, reduce compliance costs, and improve the efficiency of business operations across the country. One of the key features of GST is that exports are treated as zero-rated supplies, meaning that no tax is charged on exported goods and services. This policy ensures that taxes do not become a burden on exports, thereby enhancing their competitiveness in global markets.

Concept of Export Competitiveness

Export competitiveness refers to the ability of a country to produce and sell goods and services in international markets at competitive prices while maintaining quality standards. It is influenced by several economic factors such as production costs, technological efficiency, infrastructure development, exchange rate stability, and government policies. A competitive export sector allows a country to expand its presence in global markets and improve its trade performance.

Tax policies also play an important role in determining export competitiveness. If exporters are required to pay high taxes on inputs and production processes, the cost of exported goods increases, making them less competitive compared to products from other countries. Therefore, many governments adopt policies that minimize the tax burden on exports. The principle followed globally is that exports should not carry domestic taxes. The introduction of GST in India follows this principle by treating exports as zero-rated supplies and allowing exporters to claim refunds on input taxes. This ensures that the final exported product remains free from domestic tax burdens and can compete effectively in international markets.

GST and Export Promotion

The GST system has introduced several mechanisms that support export promotion in India. One of the most significant features is the concept of zero-rated supplies. Under this system, exporters do not have to pay GST on exported goods and services. In addition, they can claim refunds for the taxes paid on inputs used in the production process. This mechanism ensures that exporters do not bear the burden of domestic taxes.

GST has also simplified the tax structure by replacing multiple indirect taxes with a single tax system. This simplification reduces administrative complexity and compliance costs for businesses. Earlier, exporters had to maintain separate records and comply with different tax regulations for each state. With the introduction of GST, the tax structure has become more uniform across the country, making it easier for exporters to operate in multiple states.

Furthermore, the removal of interstate check posts and the introduction of electronic documentation under GST have improved logistics efficiency. Goods can now move more quickly across state borders, reducing transportation delays and lowering logistics costs. This improvement in supply chain efficiency has contributed to enhancing export competitiveness.

Impact of GST on Export Competitiveness

The implementation of GST has had a significant impact on the competitiveness of Indian exports. One of the major benefits is the reduction in production costs due to the elimination of cascading taxes. By allowing input tax credits and removing multiple tax layers, GST has helped reduce the overall cost of manufacturing and services. Lower production costs enable exporters to offer competitive prices in international markets.

Another positive impact of GST is increased transparency in the taxation system. GST operates through a digital platform where transactions are recorded electronically. This digital system improves accountability and reduces the chances of tax evasion. Greater transparency enhances the credibility of Indian businesses in global markets and strengthens international trade relationships. GST has also improved supply chain efficiency by eliminating barriers to interstate trade. Before GST, businesses faced delays due to tax check posts and different state-level tax regulations. These barriers increased transportation time and logistics costs.

In addition, GST has encouraged the growth of export-oriented industries such as

textiles, pharmaceuticals, information technology services, and manufacturing. These sectors benefit from tax credits and simplified tax procedures, which help them expand their presence in international markets.

Challenges Faced by Exporters after GST

Despite the advantages of GST, exporters have faced certain challenges in the initial years of its implementation. One of the major issues reported by exporters was delays in receiving GST refunds. Since exporters often pay GST on inputs and later claim refunds, delays in the refund process can create cash flow problems and affect working capital availability.

Another challenge is the increased compliance requirements associated with GST. Businesses must file regular returns, maintain digital records, and comply with various reporting requirements. For small exporters with limited resources, managing these compliance procedures can be difficult.

Technical issues with the GST portal were also reported during the early stages of implementation. Many businesses experienced difficulties in filing returns, uploading invoices, and tracking refund claims. Although these technical problems have been gradually resolved, they created operational challenges for exporters in the initial phase. Additionally, the need to pay GST before claiming refunds sometimes results in temporary blockage of working capital. This can affect the financial liquidity of exporters, particularly small and medium enterprises that operate with limited funds.

Suggestions for Improving Export Competitiveness

To maximize the benefits of GST for exporters, certain improvements can be made in the system. The government should ensure faster processing of GST refunds to prevent working capital shortages for exporters. A simplified refund mechanism would greatly benefit businesses involved in international trade.

Year	Total Exports (US\$ Billion)	Growth Rate (%)
2014–15	310	–
2015–16	262	-15.5
2016–17	275	4.9
2017–18 (GST Introduced)	303	10.2
2018–19	330	8.9
2019–20	314	-4.8
2020–21	291	-7.3
2021–22	422	44.9

Another important measure is to reduce the compliance burden on small and medium enterprises. Training and awareness programs should also be conducted to educate businesses about GST regulations and procedures. Investment in infrastructure and logistics development is also essential for improving export competitiveness. Efficient ports, transportation networks, and digital trade systems can reduce export costs and improve delivery efficiency. Encouraging technological innovation and digital transformation in export industries can further strengthen India's position in global markets.

Conclusion

The introduction of the Goods and Services Tax represents a major milestone in India's economic reform process. By replacing multiple indirect taxes with a unified tax system, GST has simplified taxation and improved the overall business environment. The treatment of exports as zero-rated supplies ensures that exported goods and services remain free from domestic tax burdens.

GST has also improved transparency, strengthened supply chain efficiency, and supported the growth of export-oriented industries. However, challenges such as refund delays, compliance complexity, and working capital issues need to be addressed to fully realize the benefits of the reform. With continuous policy improvements and supportive government initiatives, GST has the potential to significantly enhance India's export competitiveness and contribute to long-term economic growth.

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