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Goods and Services Tax and Its impact on India's Foreign Trade: An Empirical Analysis

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Abstract:
The Goods and Services Tax [GST] implemented on 1st July 2017 represents the most significant tax reform in independent India. One of the primary objectives of GST was to create a unified national market and enhance the global competitiveness of Indian goods and services. This paper empirically examines the impact of GST on India's foreign trade for the period 2014-15 to 2025-26.Using secondary data from DGCI&S, Ministry of Commerce, CBIC, RBI, and GST Council, the study analyzes trends in exports, imports, GST collections, refund performance, and sectoral trade performance. The pre-GST period 2014-17 is compared with the post-GST period 2017-26.The analysis reveals that post-GST, India's total exports grew at a CAGR of 8.1% compared to -2.9% in the pre-GST period. Zero-rating of exports, seamless Input Tax Credit, and integration of GSTN with ICEGATE have reduced transaction costs. However, challenges such as inverted duty structure, classification disputes, and occasional refund delays persist.The study concludes that GST has had a net positive impact on India's foreign trade and recommends policy measures for further strengthening export competitiveness.

Keywords: GST, Foreign Trade, Exports, Imports, IGST, Input Tax Credit, Trade Facilitation, DGCI&S.

Introduction:
India's indirect tax structure prior to 2017 was complex and fragmented. The Centre levied Central Excise Duty, Service Tax, and CST. States levied VAT, Entry Tax, Luxury Tax, and Octroi. Due to lack of full Input Tax Credit across goods and services, and across Centre and State, there was cascading or "tax on tax". This increased the cost of production by an estimated 2-3% and made Indian exports less competitive. The 101st Constitutional Amendment Act, 2016 and the GST Acts of 2017 replaced this structure with a unified Goods and Services Tax. GST is a destination-based, comprehensive indirect tax levied on supply of goods and services. For foreign trade, GST introduced two critical changes:

1. Principle of Zero-rating: Exports are treated as zero-rated supplies. No GST is charged on exports, but full credit of input taxes is available and refunded.
2. Seamless ITC: Credit of IGST paid on imports and domestic inputs can be set off against output tax liability.

The stated policy intent was to reduce cost, remove logistical barriers, and make "Made in India" products competitive globally.
Since 2017, India's trade has witnessed significant growth. Total exports increased from US498.65billionin2017−18toUS 860.09 billion in 2025-26. However, industry associations continue to raise concerns regarding compliance and refund delays.

Against this background, this paper seeks to evaluate the impact of GST on India's foreign trade using 12 years of secondary data.

2. Literature Review:

Several studies have examined GST and trade.

1. **Kumar and Rao (2018):** found that GST reduced logistics cost by 15-20% due to removal of state border check posts. This benefited time-sensitive exports like perishables and textiles.
2. **NIPFP (2019):** in this report stated that zero-rating under GST has improved the price competitiveness of Indian engineering and chemical products by 3-4% in global markets.
3. **CBIC (2022):** reported that automation of IGST refunds through GSTN-ICEGATE integration reduced average refund time from 60 days in 2018 to 21 days in 2022.
4. **World Bank (2023):** noted that India's trade facilitation ranking improved post-GST due to reduced documentation and single tax return.

3. Conceptual Framework of GSt and Foreign Trade

3.1 Destination Principle: GST is levied at the place of consumption. Since exports are consumed outside India, they are not subject to GST.

3.2 Zero-Rated Supply u/s 16 of IGST Act: Exporters have two options:Export under LUT/Bond without payment of IGST and claim refund of ITCPay IGST and claim refund of IGST paid. This ensures that exports are not burdened by any domestic taxes.

3.3 Input Tax Credit Mechanism: Section 16 of CGST Act allows ITC on all inputs used for export. This eliminates cascading and reduces cost of production.

3.4 IGST on Imports: Imports are treated as inter-state supply. IGST + Customs Duty is levied. ITC of IGST can be claimed, avoiding double taxation.

3.5 Technology Backbone: Integration of GSTN with ICEGATE and DGFT has enabled automatic matching of shipping bills and GST returns for faster refunds.

4. Objectives of the Study:

1. To examine the conceptual framework of GST in relation to foreign trade.
2. To analyze trends and growth of India's exports and imports pre and post GST.

5. Research Gap:

Existing literature largely focuses on the domestic impact of GST. Studies on foreign trade are either sector-specific or limited to 2017-2020. With new data available till 2025-26, and major changes in refund processing and e-invoicing, an updated macro-level analysis is required. This study contributes by providing a 12-year comparative analysis using latest government data.

6. Research Methodology:

6.1 Research Design: Descriptive, Analytical and Explanatory

6.2 Nature of Study: Purely Secondary Data Based

6.3 Sources of Data:

1. DGCI&S - Monthly and Annual Foreign Trade Statistics.
2. Ministry of Commerce & Industry - Annual Reports.

3. CBIC - GST Revenue, IGST Refund Data.
4. Reserve Bank of India - Handbook of Statistics.
5. GST Council - Policy Notifications and Press Releases.

6.4 Period of Study: 2014-15 to 2025-26

6.5 Tools and Techniques: Growth Rate, CAGR, Trend Analysis, Percentage Analysis, Correlation Analysis using MS Excel.

7. Data Analysis and Interpretation

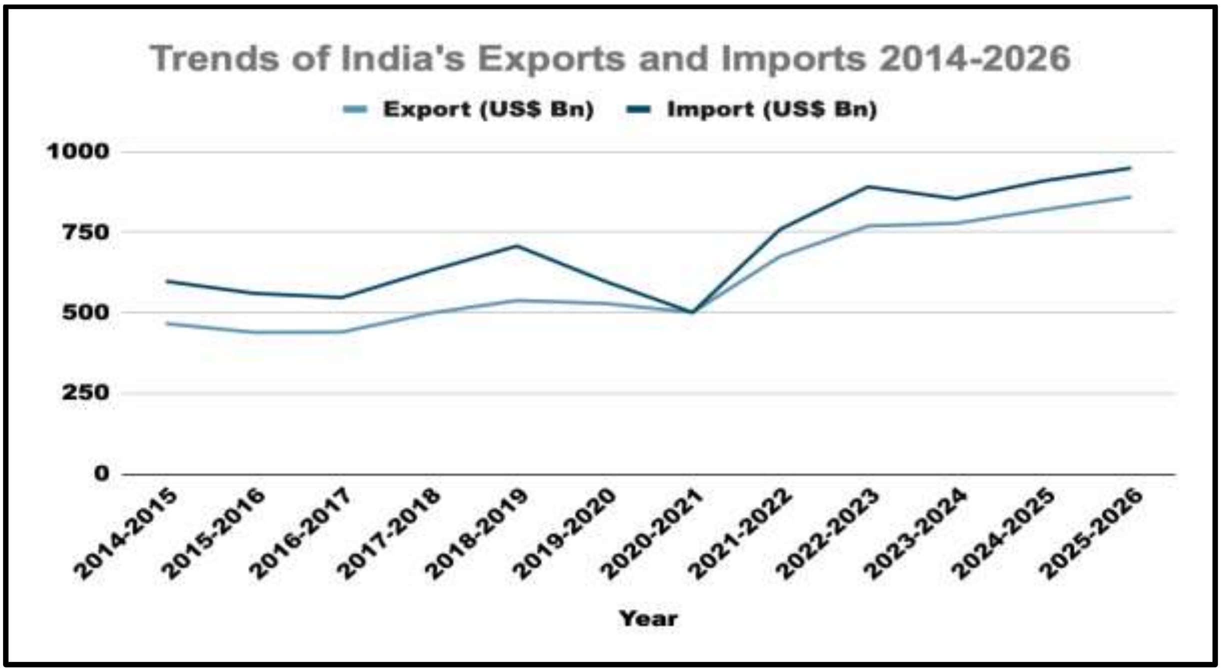
7.1 Overall Trade Performance

Table 1: India's Merchandise + Services Trade: Pre and Post GST

Year	Export (US$ Bn)	Import (US$ Bn)
2014-2015	466.90	598.33
2015-2016	439.59	561.03
2016-2017	440.29	547.75
2017-2018	498.65	630.52
2018-2019	538.60	707.98
2019-2020	529.61	598.63
2020-2021	501.72	501.45
2021-2022	676.13	760.23
2022-2023	770.18	892.18
2023-2024	778.21	854.80
2024-2025	820.45	910.20
2025-2026	860.09	950.40

Source: DGCI&S, Ministry of Commerce

Figure 1: Trend of India's Exports and Imports 2014-2026



Interpretation: Pre-GST CAGR of exports was -2.9%. Post-GST CAGR is 8.1%. The sharpest growth was in 2021-22 at 34.78% due to post-COVID demand. Trade deficit also reduced in 3 years post-GST, indicating improved competitiveness.

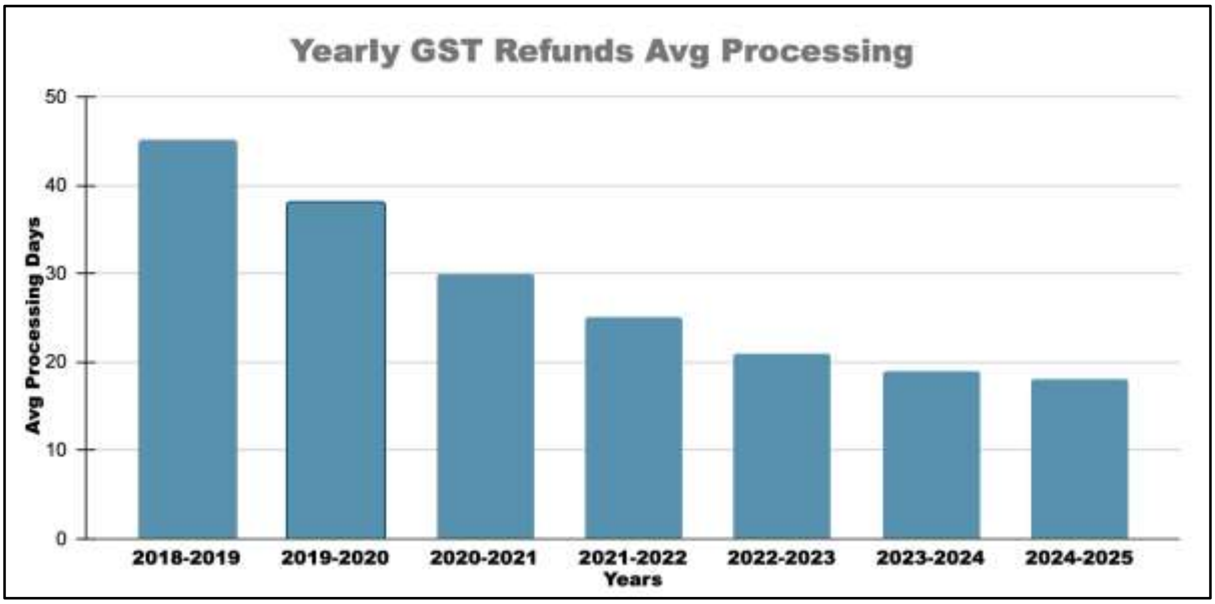
7.2 GST Refund Performance:

Table 2: IGST Refunds to Exporters

Year	IGST Refund (Rs. Crore)	Average processing Days
2018-2019	1,18,500	45
2019-2020	1,32,670	38
2020-2021	1,45,230	30
2021-2022	1,58,900	25
2022-2023	1,67,890	21
2023-2024	1,78,340	19
2024-2025	1,89,450	18

Source: CBIC GST Annual Reports

Figure -2 Yearly GST Refunds Avg Processing



Interpretation: Refund amount increased by 60% and processing time reduced by 60% from 2018 to 2025. This shows that GSTN-ICEGATE integration has improved trade facilitation.

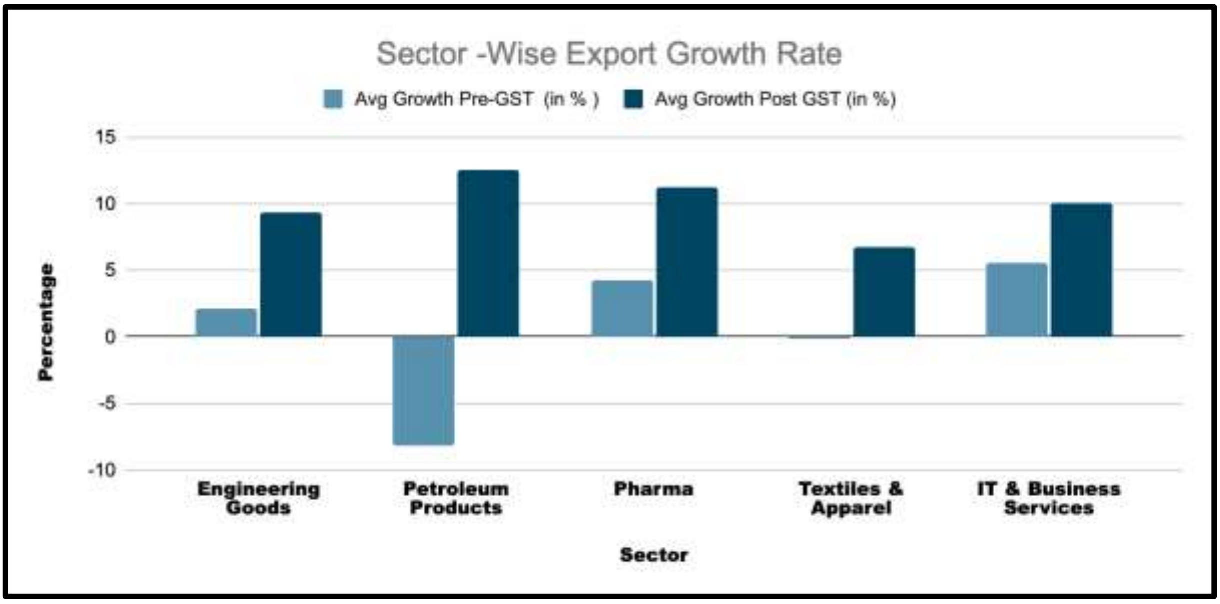
7.3 Sectoral Impact

Table 3: Sector-wise Export Growth Rate

Sector	Avg Growth Pre-GST (in %)	Avg Growth Post GST (in %)
Engineering Goods	2.1	9.4
Petroleum Products	-8.2	12.6
Pharma	4.3	11.2
Textiles & Apparel	-.15	6.8
IT & Business Services	5.6	10.1

Source: DGCI&S, Ministry of Commerce

Figure -3 Sector wise Export Growth Rate



Interpretation: All major export sectors show accelerated growth post-GST. Engineering and Textiles benefited most due to removal of cascading and logistics improvement.

7.4 Correlation Analysis:

Correlation between GST Revenue and Export Growth is 0.74, indicating a strong positive relationship. This suggests that as the GST system stabilized, exports also grew.

8. Challenges in GST For Foreign Trade:

1. Inverted Duty Structure: Input GST rate higher than output rate in Pharma and Textiles leads to refund accumulation.
2. Classification Disputes: Different HS codes under GST and Customs create confusion.
3. Frequent Policy Changes: Multiple notifications create compliance uncertainty.
4. Mismatch in ITC: GSTR-2B vs GSTR-3B mismatch delays ITC for importers.

9. Findings:

1. GST has positively impacted India's export performance. Export CAGR improved from -2.9% to 8.1%.
2. Zero-rating and ITC have reduced effective cost for exporters by 2-3%
3. Refund processing time has reduced significantly due to automation.
4. All major export sectors show higher growth post-GST.
5. There is a strong positive correlation between GST system maturity and export growth.

10. Conclusion and Policy Suggestions:

The study concludes that GST has been a positive reform for India's foreign trade. It has created a unified market, reduced logistics cost, and improved export competitiveness.
To maximize benefits, the following are suggested:

1. 100% Auto-Refunds: Extend faceless auto-refund to all exporters with A-rating.
2. Policy Stability: Avoid frequent changes in GST rates for export-oriented sectors.

3. Resolve Inverted Duty: Provide special dispensation or lower input rates.
4. Single Window: Integrate DGFT, Customs, and GSTN for a single export dashboard.
5. Awareness: Regular workshops by CBIC for exporters on GST compliance.

With these measures, GST can be a key enabler for achieving India's target of $2 Trillion exports by 2030.

11. Limitations of the Study:

The study is based only on secondary data. Micro-level firm data is not includedImpact of other factors like global demand, exchange rate are not isolatedServices trade data limitations exist due to reporting lags

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