

GST Reform and the Tariff Tide: India's Journey Through Global Trade Turbulence

In India, the evolution of indirect taxation reached a historic milestone with the implementation of the **Goods and Services Tax (GST)** from **July 1, 2017**. This reform marked one of the most ambitious and transformative policy shifts in the country's economic history. Prior to GST, India's tax landscape was fragmented, characterized by a web of Central and State levies such as excise duty, service tax, VAT, and entry tax—often leading to cascading effects, inefficiencies, and lack of transparency. The introduction of GST aimed to dismantle this complexity by subsuming multiple indirect taxes into a unified, destination-based tax system. The main objectives of GST were to enhance economic efficiency, promote ease of doing business, and create a seamless national market by eliminating inter-state tax barriers.



With a view to carry the growth-oriented, transparent, and equitable reform process forward, the Government has restructured the GST system in September 2025, referred to as GST Reforms 2.0. By means of this restructuring, Government has streamlined the tax slabs with the main aim of reducing rates on those items which has been affected by higher import duty imposed by USA. The basic assumptions underlying this GST reform is that the reduction in GST rate would concurrently reduce the cost of sales on one hand and on the other, there would be a reduction in cash outflow, thereby making a situation that might save them from facing working capital deficiency. But then, how has it been done? On September 3, the GST Council replaced the four intricate tax slabs of 5 percent, 12 percent, 18 percent, and 28 percent with a more straightforward two-tier structure of 5 percent (merit rate) and 18 percent (standard rate). Also, a new rate of 40 percent has been kept for luxury and sinful goods like tobacco, sugary drinks, expensive cars, yachts, and private planes.

The common wisdom would want to know how would the affected companies derive benefit from this reform? The answer is in the face of global uncertainty, these changes would increase retail consumption and directly benefit labour-intensive industries like textiles, micro, small, and medium-sized businesses (MSMEs), and the automotive sector. Lower tax rates will generally result in lower prices for many consumer goods, which would boost consumption because consumers with more disposable income, will spend more. The GST Council has reduced rates in several areas such as, GST on cement has been cut from 28 percent to 18 percent, while small cars, two-wheelers up to 350cc, buses, trucks, and ambulances will now attract 18

percent. Healthcare and education items like medical devices, life-saving medicines, and study materials now face either 5 percent tax or are tax-free. Essential foods, daily necessities, and consumer goods such as packaged foods, dairy, textiles, electronics, footwear, and paper products have to pay taxes of 0 or 5 percent only.

Now, let us look at the issue from a macro angle. According to preliminary estimates from the Ministry of Finance, India's gross GST collections in FY 2024–2025 reached a record ₹22.08 lakh crore. The country's taxpayer base also increased from 6.6 million in 2017 to 15 million in FY 2024–2025. This illustrates how the indirect tax has become crucial to India's financial system and shows the expanding scope and effectiveness of the GST network. Despite these achievements, the external shock from the U.S. tariff hike poses a major challenge for India's trade sector. The United States, India's largest trading partner, accounts for nearly one-fifth of India's total merchandise exports. According to data from the Ministry of Commerce and Industry, India's exports to the United States climbed from USD 48 billion in 2018 to nearly USD 86 billion in FY 2025, while imports from the U.S. reached USD 52 billion. However, this steady upward trend is now at risk. In August 2025, President Donald Trump announced a 50 percent tariff hike on Indian goods. Although the goal of this action is to safeguard American manufacturers, it has caused a stir in India's export industries. Up to two-thirds of India's exports to the US market are anticipated to be impacted by these new 50% U.S. tariffs, particularly in labour-intensive industries like engineering goods, textiles, gems, and pharmaceuticals. Indian products will be less affordable in the U.S. market due to their higher prices. The higher costs of Indian goods in the U.S.

market will make them less competitive, pushing American buyers to seek alternatives from countries like Vietnam, Mexico, and Bangladesh. Economists estimate that these new tariffs could pose a 60–80 basis point downside risk to India’s annual GDP growth, primarily through falling exports. Additionally, a drop in export earnings could weaken the rupee and reduce the current account balance.

Now the question is whether the effective GST cut will be significant enough to fully compensate export losses from tariffs? The Finance Minister Nirmala Sitharaman mentioned that the government would lend support to the sectors hit hard by the ‘trade of tariffs’ and would ensure that exporters were not left ‘high and dry’.

Keeping in view the above steps taken by the Government, one would understand that notwithstanding the sharp rise in U.S. tariffs straining India’s export performance, the timely and concurrent steps taken by the central Government by putting into operation the GST Reforms 2.0 has emerged as a powerful tool to stabilise the economy. The logic is a matter of accentuation. While there will be increase in the landed cost of Indian goods abroad by virtue of higher tariff, reduction in GST rate will offset that adverse impact and maintain overall price competitiveness. Reduction in GST on crucial inputs such as engineering components, textiles, and automobile parts would effectively enhance supply-chain efficiency, preserve export viability and prevent contraction in trade volumes. Sectoral estimates made by the Progress Harmony Development (PHD) Chamber of Commerce and Industry would lay bare the scenario more clearly. While engineering, electronic items and pharmaceutical products may experience loss of about USD 4.2 billion

(USD 1.8 billion for engineering goods, USD 1.4 billion for electronic items and USD 1 billion for pharmaceutical products), textiles sectors, small cars and two-wheelers industries, MSMEs and ancillary industries would make good that amount of loss. According to the projections made by the Ministry of Finance, there would be an 8–12 percent reduction in production costs and a boost in competitiveness for domestic producers. Robust household spending, supported by lower GST rates and increased disposable income, would act as a buffer even if external demand declines. According to the Ministry of Finance estimates, 10 percent fall in export-driven growth can be offset by a 7–9 percent increase in domestic production and consumption under the new GST regime. This implies that India's growth trajectory will be driven by internal demand and industrial efficiency rather than dependence on exports.

In conclusion, one may say that the effective GST cut may not fully neutralize the loss in export revenue, but it would provide a sufficient, strategic domestic stimulus to mitigate the loss, sustain competitiveness, and reinforce the economy's resilience. Ultimately, the GST reform would serve as a strategic fiscal tool that stabilizes India's price competitiveness, which will strengthen the nation's economy in the midst of a volatile global trade situation, arising from the increase in tariff by the US Government.

Thank You
