



A post covid-19 study of India's foreign trade and the GST framework

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Abstract

On 1st July, 2017 India become the 160th country to introduce Goods and Service Tax (GST) globally. Introduction of this new form of indirect tax, GST, significantly impacted international trade by altering the structure of import and export taxation and replacing various indirect taxes and exemptions. The Central Government had announced the Foreign Trade Policy for a 5-year term from April, 2015 to March 31, 2020, with a provision for a mid-term review to assess and modify the policy as required. Even before the onset of the Covid-19 global pandemic, India faced challenges in achieving its GST revenue collection targets. The Covid-19 pandemic caused severe disruptions to global trade, including in India, leading to economic shock that were even more profound than those experienced during 2008-09 financial crisis, which saw a 0.1% contraction in global GDP. This paper seeks to examine the post-Covid-19 impact on India's foreign trade and the GST framework.

Keywords: GST, Post Covid-19, impact, india's foreign trade

Introduction

Due to the COVID-19 pandemic and the subsequent lockdowns, exports and imports were massively impacted. From the exporters' point of view, they faced challenges in meeting existing due dates, availing benefits, completing compliances under the Foreign Trade Policy (FTP). However, the announcement by the Finance Minister, Ms Nirmala Sitharaman, to extend the Foreign Trade Policy (FTP) 2015 – 2020 from 31st March, 2020 to 31st March, 2021, along with the extension of the due dates for filing GST compliance, brought much-needed relief to exporters.

From the onset of the pandemic, the Government implemented these announcements through a series of measures. According to the Finance Ministry's press release on 1st January, 2021, Goods and Services Tax (GST) collections for December, 2020 recorded the highest growth of 11.6%, amounting to Rs 1,15,174 Crore. This surpassed the previous second highest collection of Rs 1,13,865 Crore in April 2019, despite the global pandemic. Experts attribute this peak to festive sales, restocking and imports.

Festive sales in November, particularly during the Diwali season, and retailer's replenishment of stock contributed significantly to this surge. According to the experts, the rise in GST collections reflects trust in the economy's recovery and increased business activity. Meanwhile, domestic transactions accounted for 8% growth, while GST collections from imports increased by 27%.

In December 2020, GST collected from imports amounted to Rs 27,050 Crore, approximately Rs 6,000 Crore more than the Rs 21,295 collected in December, 2019. This sharp increase in GST collections from imports is a positive indicator of foreign trade returning to normal. However, sector-wise import data would provide further insights into the relationship between imported products, domestic manufacturing, and exports.

Objectives of the study

The main objective of this paper is to study and analyse the post Covid-19 impact of India's foreign trade. With the implementation of Goods and Service (GST), it has been observed that both exports and imports has increased.

However, a significant concern is that the country experienced a trade deficit within just one year. Therefore, the present study aims to analyze and compare the post Covid-19 impact on India's foreign trade and the GST framework.

Research methodology

The present study is based on the secondary data relevant to the current reforms taking place in the Indian economy. An extensive review of literature available in public domain has been conducted. The views of experts and other officials have also been incorporated into the study. Some of the key sources include:

- Publications from Ministry of Commerce, Government of India.
- Reports from Department of Industrial Policy and Promotion.
- Websites of World Bank, IMF, WTO, RBI, UNCTAD, ASSOCHAM.
- Press Release from Ministry of Finance, Government of India, since the onset of the Covid-19 Pandemic.

Analysis on the post Covid-19 impact of India's foreign trade and on Goods and Service Tax (gst)

Before the implementation of GST, a wide variety of indirect taxes were levied in India. However, the current GST system has significantly reformed the import and export landscape in the country by eliminating many of the previously levied indirect taxes. This shift has implications for the Foreign Trade Policy (FTP) and the nation's overall investment environment.

Under GST, the single integrated Goods and Services Tax (GST) has replaced most indirect taxes. However, the impact of certain goods continues to attract basic customs duty, education cess, and other protective taxes in addition to IGST. These include taxes like anti-dumping and safeguard duty.

Before delving into the effects of GST on India's international trade scenario, it is essential to understand the concept of Integrated Goods and Services Tax (IGST) to gain a clearer perspective on the subject.

Integrated Goods and Services Tax

With the introduction of IGST under GST, imports are treated as inter-state-supplies, and IGST is levied in the state where the imported goods are consumed or imported services are received. IGST can be paid by availing the input tax credit of Central Goods and Services Tax (CGST), State Goods and Services Tax (SGST), and IGST.

The input tax credit allows dealers to claim credit for taxes paid on their purchases at the time of paying the final tax on their sales. Specifically, the input tax credit of CGST can only be utilized for CGST and IGST, while the input tax credit of SGST can only be utilized to pay SGST and IGST.

Analysis on India’s foreign trade

Trade statistics from 2014 – 2023

Fig 1: Figure in billion \$

Year	Export	Import	Trade Deficit
2014	318.20	462.90	-144.70
2015	310.30	447.9	-137.60
2016	262.30	381.00	-118.70
2017	275.80	384.30	-108.50
2018	303.52	465.58	-162.05
2019	330.07	514.07	-184.00
2020	314.31	467.19	-152.88
2021	420.00	612.00	-192.00
2022	676.53	760.06	-83.53
2023	770.18	892.18	-122.00

Source: https://en.wikipedia.org/wiki/Foreign_trade_of_India

The above data provides an interesting overview of India’s foreign trade from 2014-2023, highlighting key trends and fluctuations. From the statistical view point, it is observed:

Exports

Marginal Decline (2014-2016)

- Exports decreased from \$ 318.2 billion in 2014 to \$ 262.3 billion in 2016.
- This decline aligns with global economic uncertainties and a slowdown in global trade during this period.

Recovery post (2016)

- Exports increased by approximately 5% in 2017 to \$ 275.8 billion, coinciding with the implementation of the Goods and Services Tax (GST).
- A further rise of 10% per year was observed in 2018 (\$ 303.52 billion) and 2019 (\$330.07 billion)

Pandemic Impact (2020)

- Exports dropped by about 5% to \$314.31 billion due to disruptions caused by the COVID-19 pandemic.

Post-Pandemic Surge (2021-2023)

- Exports rebounded significantly, peaking at \$770.18 billion in 2023, reflecting India’s economic recovery and enhanced trade strategies.

Imports

Steady Decline (2014-2016)

- Imports reduced from \$462.9 billion in 2014 to \$381 billion in 2026, showing a narrowing trade deficit during this period.

Gradual Increase Post (2016)

- Imports rose steadily from \$384.3 billion in 2017 to \$514.07 billion in 2019.

Pandemic and Beyond (2020-2023)

- Despite the global slowdown in 2020, imports increased by approximately 10% to \$467.19 billion.
- From 2021 to 2023, imports surged to \$892.18 billion, driven by increased demand for energy, raw materials, and capital goods.

Trade deficit

Decline (2014-2016)

- The trade deficit narrowed from \$144.7 billion in 2014 to \$108.5 billion in 2016, reflecting controlled imports and lower global commodity prices.

Post -2017 surge

- After GST implementation in 2017, the trade deficit expanded sharply, reaching \$192 billion in 2021.
- Despite higher exports in 2022 and 2023, the trade deficit remained substantial, ending at \$122 billion in 2023.

Sector-wise impact

Let us now discuss some sectors that contribute significantly to our GDP:

1. FMCG (Fast-Moving Consumer Goods)

FMGC is the 4th largest sector in our economy. To understand the sequence of operations in any FMCG company, the process typically begins with the procurement of raw materials, followed by the production process, then demand leading to sales, and finally, realizing the revenue from those sales.

However, the pandemic has severely disrupted supply chain management, and the free movement of goods is no longer as smooth as it was before. Procuring raw materials, which was a straight forward process pre-pandemic, has now become a challenging task. Even if raw materials are procured, production cannot proceed smoothly due to a shortage of labour caused by the pandemic and a decline in market demand. As a result, factories may not operate at full capacity, often running at only 60% or 70% of their potential output.

Despite these challenges, I believe that FMCG will not be as severely affected as other sectors. FMCG can be broadly divided into two categories: Essential and Non-essential (Luxury) items. The impact on essential items is expected to be lower compared to luxury items, as people will continue to buy essentials even during a crisis. However, even if sales are stable, revenue realization may face delays, leading to liquidity shortages, as debtors and customers may not pay on time.

Experts suggest two types of recovery for the FMCG sector:

- For essential items, a ‘V-shaped’ recovery is expected, meaning the pace of recovery will match the pace of the initial decline.
- For non-essential or luxury items such as premium shampoos, makeup products, and chocolates, a ‘U-shaped’ recovery is anticipated, indicating a slower return to normalcy.

2. Automobiles and spares

Germany, known as a hub for the automobile industry, is one of the countries most severely affected by the global pandemic. Consequently, procuring raw materials from such regions has become a significant challenge. Even if raw materials are obtained, production faces hurdles due to low demand. People are less willing to spend on luxury items during a crisis.

Additionally, most automobile companies already carry substantial debt, and declining sales exacerbate liquidity issues. As a result, the automobile industry currently faces a bleak outlook.

Recently, during an interview, a senior official from Maruti Suzuki mentioned that people might avoid using public transport and passenger cars, leading to a rise in four-wheeler sales. While I respect the insights of such a prominent figure, I hold a different perspective. Due to salary cuts, payment delays, and the looming threat of unemployment, people are unlikely to invest in four-wheelers. Instead, I believe they may opt for more affordable options like two-wheelers. In my opinion, post-COVID-19, the recovery of the two-wheeler segment will likely surpass that of four-wheelers.

3. Pharma

The pandemic has significantly increased the demand for the pharma sector. Items such as masks and sanitizers are in high demand across the country. During the initial lockdown, production struggled to meet demand.

From a sales perspective, India is a major exporter of generic medicines. However, procuring raw materials has been a major challenge, as approximately 70% of the raw materials for this sector are imported from China, and this supply chain has been disrupted. Even when raw materials are procured or alternatives are found, government authorities have, at times, restricted exports to ensure adequate supply within the country.

Overall, the pharma sector is on a different trajectory compared to others. Post-COVID, people are expected to remain more cautious about their health, leading to a sustained demand for hygiene-related products. Additionally, the sector may receive benefits to support its growth.

Findings

Due to the COVID-19 global pandemic, the manufacturing sector has taken a significant hit. GDP growth dropped to a six-year low in the first quarter (Q1) and continued to decline. The fiscal deficit has spiralled out of control.

In such a scenario, there are three potential types of economic recovery curves for the country:

1. 'V'-shaped economic curve—where the economy rebounds quickly after a sharp decline.
2. 'U'-shaped economic curve—where recovery is gradual after a prolonged period of stagnation.
3. 'L'-shaped economic curve—where the economy remains stagnant for an extended period without significant recovery.

Correspondingly, business can be categorized into three types:

1. Winner industries—those that thrive despite the challenges.
2. Loser industries—those that suffer significant losses.

3. In-between industries – those that neither perform exceptionally well nor face substantial losses.

Winner Industries:

1. E-commerce in marketplaces

Companies like Amazon rapidly expanded their operations, hiring 100,000 new employees to meet increased demand. People relied heavily on Amazon's services during this stressful period. Amid the pandemic, Amazon and its partners have supported communities worldwide by delivering essential items directly to consumers' doorsteps. Similarly, JD.com, a Chinese company, leveraged unmanned shops, vehicles, and warehouses to provide outstanding services, particularly in Wuhan, China.

2. Entertainment, streaming, and gaming

Industries such as Netflix, Amazon Prime Video, and Disney experienced accelerated growth as people turned to digital entertainment during lockdowns.

3. Video conferencing

With people confined to their homes, meetings, seminars, and classes were conducted via video conferencing platforms. Webex, Skype, and Zoom saw a significant increase in user numbers.

4. Non-cyclical businesses

Essential items like groceries, toothpaste, soap, shampoo, cosmetics, and alcohol remained unaffected due to their non-cyclical nature.

5. Pharmaceutical business

The demand for pharmaceutical products is inelastic. For example, patients requiring insulin will continue to purchase it regardless of any crisis.

Loser Industries:

1. Airline, travel, cruise, tourism, and transport

These sectors were severely impacted, with operations largely suspended due to travel restrictions.

2. Financial services

Industries like investment banking, the stock market, employment services, venture capital, and private equity experienced a sharp decline. However, these sectors are now recovering at a steady pace.

3. Retail business of traditional nature

Businesses such as food outlets, leisure services, hospitality, office supplies, stationery, and gift stores faced significant setbacks.

4. Oil & Gas, mining, and manufacturing

These industries were nearly shut down during the pandemic.

In-between industries

Sectors like banking, education, and healthcare are considered "in-betweeners". While they were affected by the global pandemic, these industries are expected to recover relatively quickly.

Conclusion

The deadly COVID-19 pandemic has created havoc globally, leading to the loss of innocent lives and leaving many without shelter, food, jobs, or hope. Various industries and businesses collapsed, significantly weakening the economy. The pandemic has ushered in a new era of uncertainty, bringing large parts of the global economy to a standstill. Many countries are striving hard to recover.

However, the good news is that India has historically shown resilience during economic crisis. Industries, large enterprises, and small businesses in India remain hopeful for a swift recovery this time as well.

With the lifting of lockdown restrictions, the situation is gradually returning to normal. Business scenarios are improving rapidly. The impact of GST on the Indian economy may take a new direction amid the ongoing changes brought about by COVID-19. However, the implications of GST will vary from case to case. Business owners are advised to maintain proper documentation of their bank transactions. Only by doing so can they fully avail themselves of the benefits arising from the Government's taxation changes.

Post-COVID-19 recovery depends on one key question: Can we be part of the faster adoption of new technologies and processes?

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