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The Transformative Impact of GST on Trade Patterns and Economic Integration

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ABSTRACT

The introduction of the GST in India marked a significant shift in the country's indirect taxation system, aiming to create a unified national market by subsuming a multitude of central and state taxes. This study critically analyzes the impact of GST on trade and economic integration, focusing on how the reform has influenced domestic commerce, interstate transactions, and overall economic cohesion. The implementation of GST has simplified the tax structure, enhanced transparency, and reduced the cascading effect of multiple indirect taxes. These changes have particularly benefited trade by lowering logistics costs and enabling smoother interstate movement of goods. The digital nature of GST compliance, including the GST Network (GSTN), has further contributed to improving tax administration and reducing leakages. However, the transition to GST has not been without challenges. Initial issues such as technical glitches, compliance burden, and a learning curve for businesses—especially small and medium enterprises (SMEs)—hindered the full realization of its benefits. Despite these hurdles, the long-term prospects of GST remain promising in fostering economic integration by harmonizing the tax regime across states and promoting a more competitive business environment. This research also explores sector-specific impacts, including how different industries have adapted to the new tax framework. Further, the study evaluates the role of GST in strengthening the federal structure and balancing revenue generation among the states. With continued reforms, policy adjustments, and stakeholder engagement, GST has the potential to act as a catalyst for deeper economic integration and sustainable growth.

KEYWORDS

GST, Trade, Economy, Taxation, Integration.

INTRODUCTION TO GST AND ITS ECONOMIC RATIONALE

The introduction of the GST in India on July 1, 2017, marked a significant turning point in the nation's tax reform journey. It was envisioned as a revolutionary step to consolidate the myriad of indirect taxes previously levied at the central and state levels, including VAT, service tax, excise duty, octroi, and others. GST was not merely a tax reform, but an economic integration mechanism intended to unify India into a single, seamless market. This shift was necessitated by the inefficiencies, tax cascading, and interstate trade barriers prevalent in the earlier tax system, which hampered ease of doing business and discouraged formalization of the economy.¹

At its core, GST is a destination-based tax, levied at the point of consumption rather than production. This shift realigned the tax system to be more equitable and less prone to manipulation, as businesses could claim input tax credit (ITC) across the entire supply chain. The seamless flow of ITC reduced the cost of production and improved compliance, promoting competitiveness in both domestic and international markets. Moreover, GST subsumed 17 major taxes and 13 cesses, streamlining the tax structure, reducing paperwork, and simplifying tax administration for businesses and government alike.

One of the primary economic rationales for implementing GST was the elimination of the cascading effect of taxes. Previously, the same product would attract multiple taxes at different stages of production and distribution without credit for the taxes paid earlier, inflating consumer prices. With GST, input credits are available for tax paid on every stage, resulting in price rationalization and greater transparency. This has led to improved cost efficiency in supply chains and incentivized businesses to move into the formal economy, especially in the manufacturing and service sectors.

The implementation of GST has also facilitated better tax compliance through digitalisation. The introduction of the Goods and Services Tax Network (GSTN), an IT backbone that manages all GST-related processes, ensures real-time tracking of transactions and tax filings. This system has substantially

¹ B. Arunkumar, R. Jayalakshmi, & Hemamalini, *A Study on Impact of GST on FMCG Goods*, in *Recent Research in Management, Accounting and Economics (RRMAE)* (2025).

improved transparency and curbed tax evasion.² Moreover, initiatives such as e-invoicing, mandatory e-way bills for goods movement, and integration of GST with the Income Tax Department and Customs have helped in data triangulation and plugging revenue leakages.

From a macroeconomic perspective, GST has played a key role in improving the fiscal position of both the Centre and states. The uniformity in tax rates and harmonized structure has broadened the tax base and enhanced revenue buoyancy.³ States, under the compensation mechanism provided by the GST Council, were assured revenue protection for five years, which helped in smooth transition and consensus building. Over time, however, reliance on compensation has decreased as states started experiencing revenue stability due to better compliance and increased economic activity.

The GST regime has also impacted India's trade ecosystem positively. By removing inter-state tax barriers and replacing various entry taxes, it has significantly reduced logistics costs and improved the efficiency of goods movement. The creation of a common national market under GST has enhanced the ease of doing business and attracted foreign direct investment (FDI), especially in warehousing, e-commerce, and logistics sectors. Additionally, it has brought greater uniformity in tax treatment for exporters, with mechanisms like zero-rating of exports and refund of input taxes, which have simplified tax compliance and improved export competitiveness.⁴

In terms of the latest trends, the GST Council has been actively responding to sectoral challenges and economic shifts. Rationalisation of tax slabs, removal of inverted duty structures, and a move toward a more data-driven audit system reflect the maturing of the GST ecosystem. Furthermore, the government is considering the inclusion of petroleum products and alcohol under GST's ambit, which would further align it with the goal of a truly comprehensive tax. The recent push towards automation and AI-driven tax intelligence systems indicates a future where compliance will be not just mandatory but seamlessly integrated into business operations.

Despite initial teething troubles, GST has proven to be a

² Manoranjan Kumar, Akhilesh Barve & Devendra K. Yadav, *Analysis of Barriers in Implementation of Goods and Service Tax (GST) in India Using Interpretive Structural Modelling (ISM) Approach*, 18 J Revenue Pricing Manag 355 (2019).

³ Ibid.

⁴ Saurabh Shambharkar, Pratik Ghutke & Atul Tekade, *A Study on The Impact of GST on Indian Economy*, 14 Journal of Neonatal Surgery 225 (2025).

significant milestone in India's journey toward economic reform. It has fostered greater inter-state coordination, streamlined tax governance, and aligned the country's indirect tax regime with global best practices.⁵ As GST continues to evolve through policy tweaks and technological upgrades, it is expected to play a pivotal role in India's ambition of becoming a \$5 trillion economy by ensuring a stable, transparent, and business-friendly tax environment.

GST AND SHIFTING TRADE DYNAMICS IN INDIA

The implementation of the GST in India has significantly redefined trade dynamics across the country, especially in terms of inter- and intra-state commerce. Designed as a unified, destination-based tax, GST has dismantled many of the fiscal barriers that previously hindered seamless movement of goods and services across state borders. By replacing a complex array of central and state levies with a singular tax framework, GST has laid the foundation for the creation of a truly integrated domestic market.⁶ This reform has not only streamlined trade processes but also reduced transaction costs and improved the efficiency of logistics networks.

Prior to GST, businesses faced the burden of multiple taxes like Central Sales Tax (CST), entry tax, octroi, and varying VAT rates across states. These fragmented tax structures often led to the artificial division of supply chains, as firms preferred to operate within state boundaries to avoid interstate levies. This behavior restricted the optimal placement of warehouses and manufacturing hubs and increased overhead costs.⁷ Post-GST, the elimination of CST and other inter-state levies has encouraged businesses to rethink their logistics strategies. Now, companies can consolidate warehouses and adopt a hub-and-spoke model, thereby optimizing inventory management and reducing operational redundancies.

The seamless availability of input tax credit (ITC) under GST has been another driver for change. Earlier, businesses could not claim credit for taxes paid on inter-state purchases, which discouraged them from sourcing across state borders. With GST, credit is available across the supply chain, irrespective of state

⁵ *Goods And Services Tax In India: Rationale And Reform Directions - IMPRI Impact And Policy Research Institute*, (Sep. 30, 2023), <https://www.impriindia.com/insights/goods-and-services-tax-in-india/>.

⁶ Rahul Nilakantan et al., *On Tariff Elimination, Trade Harmonization, and Household Well-being: A Study of the GST Rollout in India*, 45 *J of Business Logistics* e12378 (2024).

⁷ Sahibpreet Singh & Manjit Singh, *Role of GST in Indian Economy: An Analysis* (Dec. 30, 2024), <https://papers.ssrn.com/abstract=5122272>.

lines, making it more economically viable to engage in inter-state trade. This has improved vendor selection processes and enhanced competitiveness by allowing firms to procure goods and services from the most efficient sources, regardless of geography.

A noticeable shift has also occurred in intra-state trade. While inter-state transactions have seen a considerable boost, intra-state trade has benefited from reduced compliance burdens and uniform tax rates. The previous system required businesses to adhere to a multitude of state-specific tax laws, often leading to delays, increased documentation, and higher compliance costs. GST has harmonized the rules across states, reducing administrative overhead and fostering a more predictable business environment.

Technological advancements accompanying GST implementation have further accelerated trade efficiency. The e-way bill system, which mandates electronic documentation for the movement of goods beyond a certain value, has greatly improved the transparency and tracking of goods.⁸ This has led to faster transit times, fewer checkpoints, and significantly reduced chances of tax evasion. Real-time updates, online filing, and integrated platforms like the Goods and Services Tax Network (GSTN) have streamlined tax procedures, making them more accessible and efficient, especially for small and medium enterprises (SMEs).⁹

Recent data from the GSTN and various state governments indicate a consistent rise in inter-state trade volumes since GST's inception. Sectors like fast-moving consumer goods (FMCG), e-commerce, pharmaceuticals, and manufacturing have particularly benefited, as they rely heavily on the uninterrupted movement of goods. For instance, national-level distribution networks have become more viable, allowing businesses to cater to pan-India demand from fewer, strategically located centers. This has led to cost savings and improved delivery timelines, crucial for customer satisfaction in the age of digital commerce.

Moreover, the GST framework has created a level playing field between formal and informal players by bringing more transactions under the tax net. Increased compliance and digital invoicing have made it difficult for businesses to operate outside the tax framework, encouraging formalization.¹⁰ As a result, tax

⁸ Shubham Garg, Sangeeta Mittal & Aman Garg, *Navigating GST Revenue Efficiency Challenges: A Solution to Dilemma of Policy Makers for Enhancing Revenue Efficiency*, 16 *Journal of Indian Business Research* 393 (2024).

⁹ *Ibid.*

¹⁰ Shubham Garg, Karam Pal Narwal & Sanjeev Kumar, *Building the Empirical Puzzle on Impact of Macroeconomic Determinants on GST Revenue: An Empirical Investigation via ARDL Bound Test Perspective*, 24 *Journal of Public*

revenue has shown upward trends, and states have started reaping the benefits of expanded tax bases without resorting to protectionist fiscal measures.

However, challenges remain. Differences in tax rates for certain goods and services across the 5%, 12%, 18%, and 28% slabs continue to cause classification issues and litigation. Moreover, occasional delays in refund processes, especially for exporters, can disrupt cash flows and hinder competitiveness in global trade. Nevertheless, continuous reforms by the GST Council, such as the recent rationalization of inverted duty structures and simplification of return filings, suggest a responsive approach toward improving trade facilitation.

In practical terms, companies are now taking data-driven decisions to assess the most efficient routes and suppliers, something that was economically unfeasible before GST. A significant number of logistics providers have reported a reduction in travel time by 20–30% due to fewer stops at state borders, and this efficiency gain has translated into tangible cost savings for businesses. This evolution in supply chain behavior underscores the transformative impact of GST on trade dynamics in India.¹¹

Moreover, GST has been a game-changer in reshaping India's trade landscape. It has broken down historical trade barriers, encouraged formalization, and enhanced the overall efficiency of commerce.¹² While ongoing refinements are essential to address residual issues, the shift towards a more integrated, transparent, and technologically enabled tax system continues to align with India's vision of becoming a global economic powerhouse.

ENHANCING ECONOMIC INTEGRATION THROUGH A UNIFIED TAX REGIME

By consolidating multiple indirect taxes under a unified framework, GST has significantly reduced the economic fragmentation that previously characterized India's federal structure. This reform has aimed not only to simplify the tax system but also to promote greater cooperation between the Centre and States, thereby fostering the ideals of cooperative federalism and improving the ease of doing business.¹³

Before the rollout of GST, India's taxation system was plagued by

Affairs e2947 (2024).

¹¹ Ibid.

¹² Ravindra Ojha & Prem Vrat, *Implications of Goods and Services Tax Reform on the Make in India Initiative: A System Dynamics Perspective*, 36 *Syst Res Behav Sci* 551 (2019).

¹³ Yariv Brauner, *An International Tax Regime in Crystallization*, 56 *Tax L. Rev.* 259.

a maze of central and state taxes such as excise duty, service tax, VAT, and octroi, each governed by its own legislation and compliance requirements. These disparate systems created artificial economic boundaries, inhibiting the free flow of goods and services across state lines. This lack of uniformity imposed a heavy compliance burden on businesses, led to inefficiencies in supply chains, and undermined the vision of a unified national economy. GST addressed this challenge by subsuming these various taxes into a single, coherent structure applicable uniformly across the country.

The creation of a common national market has had far-reaching implications. Under the GST regime, the same tax rates apply to goods and services irrespective of where they are produced or consumed in the country. This has eliminated the need for businesses to establish multiple entities across states simply to optimize tax liabilities, thereby allowing firms to operate on an economically rational basis rather than being dictated by tax considerations.¹⁴ As a result, the movement of goods has become more seamless, with interstate trade volumes witnessing a noticeable increase.

The e-way bill system and the harmonization of tax return filings have further strengthened this integration. By enabling real-time tracking of goods and creating a transparent digital trail of transactions, these tools have reduced bottlenecks at state borders and cut down the time and cost associated with logistics.¹⁵ This has been particularly beneficial for sectors that depend on efficient supply chains such as e-commerce, manufacturing, and fast-moving consumer goods (FMCG). In practice, logistics providers now report significantly shorter delivery timelines and reduced warehousing requirements due to optimized routing and less bureaucratic interference.

GST has also reinforced the principle of fiscal federalism by involving both the Centre and the States in its administration. The GST Council, a constitutional body comprising representatives from both levels of government, is tasked with making decisions on tax rates, exemptions, and procedural rules. This collaborative model has fostered a spirit of negotiation and consensus-building, which is crucial for a diverse country like India. The Council's decisions often reflect a balance between regional economic priorities and national development goals, thereby strengthening the fabric of cooperative federalism.¹⁶

¹⁴ Erika Siu et al., *Unitary Taxation in Federal and Regional Integrated Markets* (Sep. 1, 2014), <https://papers.ssrn.com/abstract=2587724>.

¹⁵ *Ibid.*

¹⁶ Hans Jarle Kind, Karen Helene Midelfart & Guttorm Schjelderup, *Corporate*

Additionally, the uniformity brought in by GST has encouraged formalization of the economy. With input tax credit mechanisms requiring invoice matching and GST registration, businesses—especially in the MSME sector—have been incentivized to comply with tax norms. As more enterprises come under the formal tax umbrella, the overall tax base has expanded, which in turn provides governments with higher revenues to invest in infrastructure and social welfare. This virtuous cycle of compliance and revenue generation contributes to the broader goal of equitable economic growth and inclusive development.

While the GST system has made impressive strides, challenges persist. Rate rationalization remains a work in progress, with multiple tax slabs still in operation, occasionally leading to classification disputes and litigation. Furthermore, certain sectors such as real estate, petroleum, and alcohol are outside the GST net, which limits the full realization of a unified tax system. The timely disbursement of tax refunds, particularly for exporters, and the simplification of compliance for small businesses are other areas that require ongoing attention from policymakers.¹⁷

Nevertheless, the overall trajectory of GST suggests that it is a potent tool for deepening economic integration. With continued refinements, including further digitization, reduced compliance burdens, and eventual inclusion of currently exempted sectors, GST is poised to evolve into a truly comprehensive tax regime.¹⁸ For policymakers and businesses alike, the emphasis must now be on enhancing administrative capacity, promoting taxpayer education, and building a culture of compliance to fully harness the potential of this reform.

GST is not just a tax reform—it is an economic transformation initiative aimed at knitting together the diverse economies of India's states into a single, coherent market. Its success in promoting economic integration, streamlining trade, and reinforcing federalism marks a significant leap toward realizing the vision of “One Nation, One Market, One Tax.” As India positions itself in the global economy, a unified tax regime will be instrumental in enhancing competitiveness, improving investment climate, and ensuring sustainable economic development.

SECTORAL IMPLICATIONS AND INDUSTRY-WISE TRADE

Tax Systems, Multinational Enterprises, and Economic Integration, 65 *Journal of International Economics* 507 (2005).

¹⁷ Fabio Wasserfallen, *Political and Economic Integration in the EU: The Case of Failed Tax Harmonization*, 52 *J of Common Market Studies* 420 (2014),.

¹⁸ *Ibid.*

ADJUSTMENTS

The introduction of the GST in 2017 revolutionized the indirect tax structure in India, creating a common market by subsuming various central and state taxes. However, the impact of GST has not been uniform across sectors. While some industries adapted swiftly and benefited from the streamlined structure, others faced initial hurdles and are still undergoing transitional adjustments. The sectoral response largely depends on the nature of operations, pre-GST tax incidence, and the level of supply chain complexity.

In the manufacturing sector, GST has helped eliminate cascading taxes and enhanced input credit availability. Previously, manufacturers faced a fragmented tax regime with varied VAT, excise duties, and entry taxes. With GST, the compliance mechanism became more transparent and credit flow smoother, enabling manufacturers to optimize their costs. However, small-scale manufacturers initially faced challenges in technology adoption and understanding GST filings, which has gradually improved with increased digital literacy and government handholding through the GSTN portal.¹⁹

The services sector, particularly telecom, IT, and professional services, has witnessed both opportunities and increased compliance burdens under GST. Unlike the earlier regime where service tax was centralized, GST introduced the need for multi-state registration based on the place of supply, significantly increasing the compliance workload. Nonetheless, businesses with pan-India operations have benefited from improved credit mechanisms and standardized tax rates, promoting uniform service delivery.²⁰

In the real estate and construction industry, the GST regime replaced various indirect taxes like VAT, service tax, and stamp duties (partially), simplifying the tax structure. However, the sector continues to face ambiguity in the treatment of land value and abatement rates, causing confusion among developers and homebuyers. Recent adjustments such as reduced GST on affordable housing have been welcomed but further policy clarity is awaited to boost investor confidence and streamline project execution.²¹

Retail and FMCG industries experienced an immediate positive impact post-GST due to uniform tax rates and the elimination of check-post delays. This allowed for better logistics, reduced

¹⁹ Fritz Machlup, *A History of Thought on Economic Integration* (1977).

²⁰ Miroslav N. Jovanović, *The Economics of International Integration, Second Edition*, in *The Economics of International Integration, Second Edition* (2015).

²¹ *Ibid.*

inventory costs, and faster movement of goods across states. Companies restructured their warehousing strategies, shifting from tax-saving models to efficiency-driven supply chains. However, initial implementation hiccups, such as system downtimes and return mismatches, posed temporary setbacks that have now stabilized due to GST system upgrades.

In agriculture and allied sectors, though GST is not directly levied on most primary agricultural produce, the impact is felt on input costs and logistics. Fertilizers, pesticides, farm equipment, and related services now fall under GST, slightly raising input prices. This shift has led to concerns among farmers, especially smallholders. At the same time, better interstate movement of agri-products and input tax credits on logistics and machinery have promoted efficiency in agricultural value chains.²²

The automobile sector, once burdened by excise duties, CST, VAT, and road tax, saw a major overhaul under GST. The uniform tax rate structure facilitated seamless interstate movement of vehicles and simplified taxation. However, the introduction of the Compensation Cess on luxury and sin goods slightly dampened the enthusiasm. Despite that, the sector has mostly benefited from GST through operational cost reductions and optimized inventory management across dealership networks.

The logistics and warehousing industry, crucial for national trade integration, has significantly gained from GST. With the removal of octroi and border checks, logistics companies can now operate larger, centralized warehouses and optimize transportation routes. This has improved delivery timelines and reduced costs. Small and unorganized players, however, initially struggled with compliance but have gradually formalized operations due to GST's digitization push.²³

For the pharmaceutical and healthcare industry, GST created a more uniform tax structure by consolidating multiple levies. Essential drugs are taxed at lower rates, ensuring accessibility, while input credits on raw materials and packaging have benefited manufacturers. Nevertheless, complexities in pricing mechanisms under GST and delays in refunds have occasionally impacted working capital for pharma companies.

Export-oriented sectors like textiles and gems & jewellery have had a nuanced response. While GST's input credit system should

²² Ipsita Roy & Sourabh Bikas Paul, *Knowledge Spillovers and Productivity Growth: Role of Absorptive Capacity in the Indian Manufacturing Sector*, 22 J Ind Compet Trade 233 (2022).

²³ Rapti Deb & Amit K. Biswas, *Gains from Trade & WTO: A Study of Major Indian Industries* (Oct. 28, 2017).

ideally support exporters, delays in refund processing have strained liquidity, particularly for small exporters.²⁴ Moreover, increased compliance costs and classification issues have necessitated industry-level adjustments to streamline processes and maintain global competitiveness.

Education and healthcare—two vital public service sectors—remain largely exempt under GST. However, institutions that provide ancillary services or partner with private vendors do face input tax burdens that cannot be claimed as credit, leading to cost escalations. There's a growing demand for a more balanced GST treatment to ensure that exempt services do not become economically unsustainable due to unrecoverable taxes on inputs.²⁵

Each sector's ability to adjust to GST hinges on its structure, the degree of digitization, and the capacity for compliance. The government has shown readiness to adapt rules based on stakeholder feedback, which is crucial for balancing economic growth with fair tax practices. As the GST framework matures, further rationalization of rates, enhanced tech platforms, and clearer sectoral guidelines will ensure that India's unified tax regime truly becomes an enabler of equitable and efficient trade.

CHALLENGES, REFORMS, AND THE ROAD AHEAD FOR GST

The GST has undoubtedly brought significant transformation in India's indirect tax landscape, but its journey has not been without challenges. One of the primary hurdles faced during its implementation was the readiness of businesses—especially MSMEs—to adapt to a digital and compliance-heavy tax structure. Many smaller enterprises struggled with issues like multiple return filings, understanding the place of supply rules, and claiming input tax credits, which often led to working capital blockages.

Another critical issue is the delay in refund processing, particularly for exporters and sectors like textiles and gems, which depend heavily on liquidity. This has created trust deficits, despite the government's efforts to automate the refund process through portals like GSTN. Additionally, rate rationalization continues to be a topic of concern. Multiple slabs—0%, 5%, 12%, 18%, and 28%—along with compensation cess for select goods, create

²⁴ Ibid.

²⁵ Purnamita Dasgupta & Chetana Chaudhuri, *Environment and Economic Development: An Analysis of Electricity Demand Projections for India*, in *Accelerators of India's Growth—Industry, Trade and Employment: Festschrift in Honor of Bishwanath Goldar 85* (Suresh Chand Aggarwal, Deb Kusum Das, & Rashmi Banga eds., 2020).

confusion and increase classification disputes. Streamlining these slabs remains a much-needed reform to simplify compliance.

Recent reforms have shown the government's commitment to course correction. Introduction of e-invoicing, implementation of e-way bills, and automated return matching have improved transparency and reduced tax evasion.²⁶ The GST Council has also taken steps toward resolving inverted duty structures and simplifying compliance norms for small taxpayers through QRMP schemes.²⁷

Looking ahead, the road for GST includes expanding its scope to petroleum products and real estate, which are currently excluded. Furthermore, achieving a truly unified national market will require consistent policy updates, taxpayer education, and a robust IT infrastructure.²⁸ Strengthening the dispute resolution mechanism within GST is equally crucial to reduce litigation. As India aspires toward economic federalism, a more responsive and dynamic GST regime will play a pivotal role in ensuring balanced growth and deeper integration across all sectors.

CONCLUSION

The GST has been a landmark reform aimed at simplifying and unifying India's complex indirect tax structure. While it has successfully paved the way for a common national market by eliminating cascading taxes and improving inter-state trade fluidity, it is still a work in progress. The transition to GST has not been without its difficulties—technical glitches, compliance burdens, and sector-specific disruptions have highlighted the need for ongoing recalibration. However, the government's willingness to adapt through reforms such as e-invoicing, simplified return filing, and a push towards greater digitization reflects a responsive and evolving approach.

The GST Council's continuous engagement with stakeholders ensures that the system remains adaptive to the needs of both industry and state governments. As India progresses toward broader economic integration and a more formalized economy, GST stands at the center of this transformation. Moving forward, rationalization of tax slabs, inclusion of excluded sectors, and strengthening of dispute resolution mechanisms will be key to unlocking the full potential of this tax regime. With persistent

²⁶ Arun Kumar Deshmukh, Ashutosh Mohan & Ishi Mohan, *Goods and Services Tax (GST) Implementation in India: A SAP-LAP-Twitter Analytic Perspective*, 23 *Glob J Flex Syst Manag* 165 (2022).

²⁷ *Ibid.*

²⁸ Montek S. Ahluwalia, *India's Economic Reforms: Achievements and Next Steps*, 14 *Asian Economic Policy Review* 46 (2019).

effort and cooperative federalism, GST can truly become a robust pillar of India's economic growth and integration, benefiting businesses, governments, and citizens alike.